1981–82 MISCELLANEOUS TAX BILLS, XVIII

HEARING

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

OF THE

COMMITTEE ON FINANCE UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 2647, S. 2987, and S. 3064

DECEMBER 10, 1982

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

16-644 O WASHINGTON : 1983 HG 97-128

S361-20

COMMITTEE ON FINANCE

ROBERT J. DOLE, Kansas, *Chairman*

BOB PACKWOOD, Oregon
WILLIAM V. ROTH, Jr., Delaware
JOHN C. DANFORTH, Missouri
JOHN H. CHAFEE, Rhode Island
JOHN HEINZ, Pennsylvania
MALCOLM WALLOP, Wyoming
DAVID DURENBERGER, Minnesota
WILLIAM L. ARMSTRONG, Colorado
STEVEN D. SYMMS, Idaho
CHARLES E. GRASSLEY, Iowa

RUSSELL B. LONG, Louisiana
HARRY F. BYRD, Jr., Virginia
LLOYD BENTSEN, Texas
SPARK M. MATSUNAGA, Hawaii
DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
DAVID L. BOREN, Oklahoma
BILL BRADLEY, New Jersey
GEORGE J. MITCHELL, Maine

ROBERT E. LIGHTHIZER, *Chief Counsel*
MICHAEL STERN, *Minority Staff Director*

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

BOB PACKWOOD, Oregon, *Chairman*

JOHN C. DANFORTH, Missouri
JOHN H. CHAFEE, Rhode Island
MALCOLM WALLOP, Wyoming
WILLIAM L. ARMSTRONG, Colorado

HARRY F. BYRD, Jr., Virginia
LLOYD BENTSEN, Texas
SPARK M. MATSUNAGA, Hawaii
RUSSELL B. LONG, Louisiana

CONTENTS

ADMINISTRATION WITNESS

Page

McKee, Hon. William S., Tax Legislative Counsel, Department of the Treasury 27

PUBLIC WITNESSES

American Association of Blood Banks, Daniel Cassidy, director of governmental affairs 71
American Global, Inc., Conrad H. C. Everhard, chairman 42
Cassidy, Daniel, director of governmental affairs, American Association of Blood Banks 71
Delta Queen Steamboat Co., Stanley Thune, chairman and chief executive officer 51
Drozak, Frank, president, Seafarers International Union and Maritime Trades Department 53
Everhard, Conrad H. C., chairman, American Global, Inc 42
Foster, Charles, administrator, West Georgia Medical Center 80
Kane, Arthur, vice president, Norwegian Caribbean Line 61
Luciano, Peter, executive director, Transportation Institute 36
Norwegian Caribbean Line, Arthur Kane, president 61
Robbins, Kristin, D.D.S., special assistant to the dean, University of Colorado School of Dentistry 79
Seafarers International Union and Maritime Trades Dept., Frank Drozak, president 53
Thune, Stanley, chairman and chief executive officer, Delta Queen Steamboat Co 51
Transportation Institute, Peter Luciano, executive director 36
West Georgia Medical Center, Charles Foster, administrator 80

ADDITIONAL INFORMATION

Committee press release 2
Joint Committee on Taxation's description of S. 2647, S. 2987, and S. 3064 3
Text of prepared statement of Senator Matsunaga 24
Prepared statement of Hon. William S. McKee 31
Prepared statement of Peter Luciano 38
Prepared statement of Conrad Everhard 44
Prepared statement of Frank Drozak 55
Prepared statement of Arthur Kane 64
Prepared statement of Daniel Cassidy 74
Prepared statement of Charles Foster 83

COMMUNICATIONS

Statement of Stanley Brezenoff, president of New York City Health and Hospitals Corporation 93
Letter to Senator Bob Packwood from Senator Ted Stevens 99

1981–82 MISCELLANEOUS TAX BILLS, XVIII

FRIDAY, DECEMBER 10, 1982

U.S. SENATE,
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT,
COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m. in room 2221, Dirksen Senate Office Building, Hon. Bob Packwood (chairman) presiding.

Present: Senator Packwood.

Also present: Senators Roth and Inouye.

[The press release announcing the hearing, background information on S. 2647, S. 2987, and S. 3064, and the prepared statement of Senator Matsunaga follow:]

Press Release No. 82- 175

PRESS RELEASE

FOR IMMEDIATE RELEASE
December 2, 1982

UNITED STATES SENATE
COMMITTEE ON FINANCE
Subcommittee on Taxation and
Debt Management
2227 Dirksen Senate Office Bldg.

FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
SETS HEARINGS ON MISCELLANEOUS TAX BILLS

The Honorable Bob Packwood, Chairman of the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance, announced today that the Subcommittee will hold a hearing on Friday, December 10, 1982, on miscellaneous proposed tax legislation.

The hearing will begin at 9:30 a.m. in Room 2221 of the Dirksen Senate Office Building.

The following proposals will be considered:

S. 2987--Introduced by Senator Roth. S. 2987 would create a general exemption from the Federal motor vehicle excise tax for bloodmobiles, vehicles used exclusively in the collection and transportation of blood. Currently only bloodmobiles operated by the American National Red Cross are exempt from the tax.

S. 2647--Introduced by Senators Matsunaga and Inouye. S. 2647 would amend the Internal Revenue Code to allow a deduction for the expenses of business conventions conducted on cruise ships registered in the United States, plying exclusively between American ports.

S. 3064--Introduced by Senator Roth. S. 3064 would extend for an additional 4 years the temporary rule of current law that no amount is includible in income by reason of the discharge of certain student loans. The existing rule, which expires on December 31, 1982, applies to loans discharged in connection with the borrower's agreement to work in certain geographical areas, or for certain classes of employers.

all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument".

Witnesses scheduled to testify should comply with the following rules:

(1) All witnesses must submit written statements of their testimony.

(2) Written statements must be typed on letter-size paper (not legal size) and at least 100 copies must be delivered not later than noon on Thursday, December 9, 1982.

(3) All witnesses must include with their written statements a summary of the principal points included in the statement.

(4) Oral presentations should be limited to a short discussion of principal points included in the one-page summary. Witnesses must not read their written statements. The entire prepared statement will be included in the record of the hearing.

(5) Not more than 5 minutes will be allowed for the oral summary.

Written statements--Witnesses who are not scheduled to make an oral presentation, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearing. These written statements should be typewritten, not more than 25 double-spaced pages in length, and mailed with five (5) copies to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Friday, December 24, 1982. On the first page of your written statement, please indicate the date and subject of the hearing.

P.R. #82-175

DESCRIPTION OF TAX BILLS

(S. 2647, S. 2987, and S. 3064)

Scheduled for a Hearing
on December 10, 1982
Before the
Subcommittee on Taxation and Debt Management
of the
Senate Committee on Finance

Prepared by the Staff
of the
Joint Committee on Taxation

December 9, 1982
JCX-50-82

INTRODUCTION

The bills described in this document are scheduled for a hearing on December 10, 1982, before the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance. There are three bills scheduled for the hearing: (1) S. 2647 (relating to business expense deductions for conventions on cruise ships); (2) S. 2987 (relating to an excise tax exemption for bloodmobiles); and (3) S. 3064 (relating to the exclusion from gross income of the cancellation of certain student loans).

The first part of the document is a summary of the bills. This is followed in the second part by a more detailed description of the bills, including present law, issues, explanation of provisions, effective dates, and estimated revenue effects.

I. SUMMARY

1. S. 2647--Senators Matsunaga and Inouye
Business Expense Deductions for Cruise Ship Conventions

Under present law, no deduction is allowed for expenses of attending a convention, seminar, or similar meeting on a cruise ship (Code section 274(h)(2)). The bill would provide that business expenses for attending a convention, seminar, or similar meeting on a cruise of a cruise ship registered in the United States would be deductible to the same extent as other business expenses, if specific reporting requirements were satisfied and if all ports of call of the cruise ship were located within the United States and the U.S. possessions. The bill would apply to taxable years beginning after December 31, 1982.

2. S. 2987--Senator Roth
The Bloodmobile Act of 1982

The bill would amend present law to exempt bloodmobiles from the 10-percent manufacturers excise tax on trucks and trailers.

3. S. 3064--Senator Roth
Exclusion from Gross Income with Respect to Cancellation Of Certain Student Loans

Present law excludes from gross income amounts received from the cancellation or forgiveness of certain student loans. This provision applies if the loan cancellation or forgiveness was

pursuant to a provision of the loan agreement under which all or a part of the indebtedness would be discharged if the individual works for a certain period of time in certain professions in certain geographical areas or for certain classes of employers. Furthermore, this provision applies only to student loans made by the United States, or an agency or instrumentality thereof, or by a State or local government that are forgiven prior to January 1, 1983.

The bill would extend the student loan cancellation provision for four additional years (i.e., to loans forgiven prior to January 1, 1987).

II. DESCRIPTION OF BILLS

1. S. 2647 -- Senators Matsunaga and Inouye

Business Expense Deductions for Cruise Ship Conventions

Present Law

In general

A deduction is allowed for the ordinary and necessary expenses of carrying on a trade or business or income-producing activity, including transportation expenses and amounts expended for meals and lodging while away from home in pursuit of a trade or business or income-producing activity (Code sec. 162). Only such traveling expenses as are reasonable and necessary in the conduct of the taxpayer's business and directly attributable to it may be deducted. Fees charged for admission to a convention or other meeting generally are deductible if there is a sufficient relationship between the taxpayer's trade or business or income-producing activity and attendance at the convention or other meeting. Therefore, generally, a deduction is allowed for the costs of attending a convention or seminar in pursuit of a trade or business or income-producing activity.

Special rules (Code sec. 274(h)) apply to expenses for attendance at conventions, seminars, or similar meetings if held outside the United States, its possessions, Canada, Mexico, or the

Trust Territory of the Pacific Islands (the "North American area")[1] or if held on a cruise ship. (Conventions, etc., held outside the North American area commonly are referred to as "foreign conventions.") These rules apply both to the expenses paid by individuals attending such conventions and to expenses paid by employers of such individuals.

No deduction is allowed for the expenses of attending a foreign convention unless the taxpayer establishes that the cost is directly related to the active conduct of a trade or business or income-producing activity and that it is as reasonable to hold the meeting outside the North American area as within it (sec. 274(h)(1)). No deduction is allowed for the expenses of attending any convention, etc., held on a cruise ship, even if the ship is sailing entirely within U.S. territorial waters (sec. 274(h)(2)).

Background of present law

Special rules for foreign conventions first were enacted in 1976 because of the proliferation of foreign conventions, seminars, and cruises that were held ostensibly for business or educational purposes, but which appeared to Congress to be vacations in disguise. Under pre-1976 law, the allowance of deductions for such trips (as for domestic conventions) depended on a subjective determination of the taxpayer's principal purpose

---

[1]Under the United States-Jamaican income tax treaty, deductions are permitted for certain expenses of attending a convention in Jamaica (Art. 25(7)).

in making the trip. This had proved to be a difficult standard for the Internal Revenue Service to apply, particularly in the case of overseas trips.

Under the foreign convention rules as enacted initially in 1976, deductions could be taken for no more than two foreign conventions per year, and were limited to certain transportation and subsistence expenses. Under the 1976 rules, the taxpayer deducting the expenses of attending a foreign convention also had to comply with certain special reporting requirements. For example, the taxpayer had to attach to the income tax return for the year in question information to indicate the total days of the trip (exclusive of the transportation days to and from the convention), the number of hours of each day devoted to business activities, and any other information required by regulations. In addition, the taxpayer had to attach to the income tax return a statement, signed by an appropriate officer of the sponsoring organization, which included a schedule of the business activities of each convention day, the number of hours that the individual attended these activities each day, and any other information required by regulations.

The 1976 rules seemed to be unsatisfactory because in some cases they operated to disallow legitimate business travel expenses, but in other cases failed to disallow deductions for trips which actually were foreign vacations (S.Rpt. No. 96-1031, 96th Cong. 2d Sess. 12 (1980)). Accordingly, Congress revised the rules in 1980 (P.L. 96-608).

The present rule was intended to focus upon the reason why

a foreign site was selected for the convention or meeting. The disallowance of deductions for expenses of attending conventions on cruise ships was justified on the ground that the personal benefits of going on a cruise often predominated over other purposes. Therefore, it was argued, disallowing deductions for such expenses avoids disputes on audit and prevents taxpayers from claiming deductions that would not be upheld by a court.

In P.L. 96-608, Congress also repealed the special reporting requirements.

Issues

The principal issue is whether business expenses of attending a convention, seminar, or similar meeting held during a cruise on a U.S. cruise ship should be deductible if all ports of call of the cruise are located in the United States and its possessions. A related issue is the nature of substantiation that should be required of taxpayers seeking deductions for cruise ship conventions.

Explanation of the Bill

General rule

Under the bill, the expenses of attending a convention, seminar, or similar meeting held on a cruise ship would continue to be disallowed as deductions unless three conditions were met: (1) the taxpayer would have to establish, by satisfying specific reporting requirements, that the cruise ship meeting was directly related to the active conduct of the taxpayer's trade or business or to an income-producing activity, (2) the taxpayer would have to establish that the cruise occurred on a vessel registered in the

United States, and (3) the taxpayer would have to establish that all the ports of call of the cruise were located in the United States and its possessions. If all these requirements were met, the expenses for attending such a meeting would be deductible to the same extent as expenses of attending a domestic convention held on land.

Under the bill, as under present law, no deduction would be allowed for expenses of attending a convention, seminar, or other meeting held on a cruise ship which is not a U.S. registered cruise ship. Moreover, no deduction would be allowed for expenses of attending a convention or similar meeting held on a cruise ship during a cruise that calls on a foreign port (even a port in Canada, Mexico, or Jamaica).

Reporting requirements

The bill would establish rules for cruise meetings substantially identical to the reporting requirements repealed by P.L. 96-608. The taxpayer claiming the deduction would have to attach to the income tax return for the year in question a statement indicating the total days of the trip (excluding the days of transportation to and from the cruise ship port), the number of hours of each day of the trip devoted to scheduled business activities, a program of the scheduled business activities of the meeting, and any other information required by regulations. The taxpayer also would have to attach to that return a statement signed by an officer of the organization or group sponsoring the meeting that includes a schedule of business activities of each day of the meeting, the number of hours during

which the individual attending the meeting attended business activities, and any other information required by regulations.

Effective Date

The provisions of the bill would apply to taxable years beginning after December 31, 1982.

Revenue Effect

It is estimated that the bill would have a negligible effect on budget receipts.

Other Congressional Action

On September 16, 1982, the House Committee on Ways and Means reported favorably H.R. 3191, as amended (H. Rep. No. 97-828), a bill that would allow deductions for business expenses incurred after December 31, 1982, on cruises of U.S.-documented vessels when all ports of call of the cruise are inside the North American area (the United States, its possessions, Canada, Mexico, and the Trust Territory of the Pacific Islands). H.R. 3191, as amended also requires the taxpayer to establish the direct relation of the cruise meeting to his trade, business, or income-producing activity. The taxpayer is to establish this direct relation by written statements signed by the taxpayer and by an officer of the sponsoring organization, and by such other methods as regulations may prescribe.

The House has not acted on H.R. 3191, as amended.

2. S. 2987--Senator Roth

Exemption of Bloodmobiles from Manufacturers Excise Tax on Trucks and Trailers

16-644 O - 83 - 2

Present law

A manufacturers excise tax is imposed on the sale of truck chassis and bodies, truck trailer and semitrailer chassis and bodies, and tractors of the kind chiefly used for highway transportation in combination with a trailer or semitrailer (including related parts or accessories) (Code sec. 4061(a)). The tax imposed is 10 percent of the selling price of the manufacturer, producer, or importer.

The tax does not apply to the sale of truck chassis and bodies suitable for use with a vehicle which has a gross vehicle weight of 10,000 pounds or less (as determined under regulations prescribed by the Secretary). Also, the tax does not apply to truck trailer and semitrailer chassis and bodies suitable for use with a trailer or semitrailer which has a gross vehicle weight of 10,000 pounds or less (as so determined). Additional exemptions apply to specified articles including camper coaches; bodies for self-propelled mobile homes; house trailers; feed, seed and fertilizer equipment; concrete mixers; buses; trash containers; and ambulances and hearses (sec. 4063(a)). Bloodmobiles are not specifically exempted under present law. However, pursuant to an authorization of the Secretary of the Treasury, vehicles (including bloodmobiles) sold to the American National Red Cross for its exclusive use are exempt (Secretary's Authorization 1979-1 C.B. 478).

The manufacturers excise tax is scheduled to fall to 5 percent on October 1, 1984.

Issue

The issue is whether bloodmobiles specifically should be exempted from the manufacturers excise tax on trucks and trailers.

Explanation of the bill

The bill would specifically exempt bloodmobiles from the manufacturers excise tax on trucks and trailers. A bloodmobile is defined in the bill as any vehicle which is used exclusively in the collection and transportation of blood.

Effective date

The provisions of the bill would be effective upon enactment.

Revenue effect

It is estimated that the bill would reduce fiscal year budget receipts by less than $500,000.

Other Congressional Action

Title V of H.R. 6211 as passed by the House on December 6, 1982, and Title V of H.R. 6211 as amended and ordered reported by the Senate Committee on Finance, would provide an exemption from the tax on trucks weighing less than 33,000 gross vehicle weight and the tax on truck trailers weighing less than 26,000. Staff understands that these provisions would exempt many bloodmobiles from the tax.

3. S. 3064--Senator Roth
Exclusion from Gross Income with Respect to Cancellation of Certain Student Loans

Present law

Under present law, gross income means all income, from whatever source derived, including income from discharge of indebtedness, unless otherwise provided by law (Code sec. 61(11)). However, subject to certain limitations, gross income does not include any amount received as a scholarship or a fellowship grant (sec. 117(a)). With the exception of certain Federal grants for tuition, an amount paid to an individual to enable him or her to pursue studies or research does not qualify as a scholarship or fellowship grant if such amount represents compensation for past, present, or future employment services or if such studies or research are primarily for the benefit of the grantor (Treas. Reg. sec. 1.117-4(c)).

Under certain student loan programs established by the United States and by State and local governments, all or a portion of the loan indebtedness may be discharged if the student performs certain services for a period of time in certain geographical areas pursuant to conditions in the loan agreements. In 1973, the Internal Revenue Service ruled on a situation in which a State medical education loan scholarship program provided that portions of the loan indebtedness were discharged on the condition that the

recipient practice medicine in a rural area of the State. The Service determined that amounts received from such a loan program were included in the gross income of the recipient to the extent that repayment of a portion of the loan was no longer required (Rev. Rul. 73-256, 1973-1 C.B. 56).

Section 2117 of the Tax Reform Act of 1976 (P.L. 94-455) provided that in the case of loans forgiven prior to January 1, 1979, no amount was to be included in gross income by reason of the discharge of all or part of the indebtedness of the individual under certain student loan programs. The exclusion applies to a discharge of indebtedness if the discharge was pursuant to a provision of the loan agreement under which all or part of the indebtedness would be discharged if the individual works for a certain period of time in certain professions in certain geographical areas or for certain classes of employers. The amendment made by the 1976 Act applies to student loans made to an individual to assist in attending an educational institution only if the loan was made by the United States or an instrumentality or agency thereof or by a State or local government either directly or pursuant to an agreement with an educational institution.

The primary purpose of this provision was to assist those States and cities that have experienced difficulties in attracting doctors, nurses, and teachers to serve certain areas, including both rural communities and low-income urban areas.

The Revenue Act of 1978 extended the student loan cancellation provision to loans forgiven prior to January 1, 1983.

Issue

The issue is whether the exclusion from income of amounts related to the cancellation of certain student loans should be extended for an additional four years.

Explanation of the Bill

The bill would extend, for an additional four years, the exclusion from income provided by the Tax Reform Act of 1976 with respect to the cancellation of certain student loans. Accordingly, no amount would be included in gross income by reason of the discharge of all or part of a student loan of the type described in section 2117 of the 1976 Act if the loan is forgiven prior to January 1, 1987.

Effective date

The provisions of the bill would be effective upon enactment.

Revenue effect

The bill would reduce budget receipts by less than $5 million per year for fiscal years 1983-1987.

II

97TH CONGRESS
2D SESSION

S. 2647

To amend the Internal Revenue Code of 1954 to allow a business expense deduction for certain conventions on cruise ships and to reinstate the convention reporting requirements.

IN THE SENATE OF THE UNITED STATES

JUNE 17 (legislative day, JUNE 8), 1982

Mr. MATSUNAGA (for himself and Mr. INOUYE) introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To amend the Internal Revenue Code of 1954 to allow a business expense deduction for certain conventions on cruise ships and to reinstate the convention reporting requirements.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) subsection (h) of section 274 of the Internal Revenue Code of 1954 (relating to disallowance of certain entertainment, etc., expenses) is amended—

(1) by striking out the period at the end of paragraph (2) and inserting in lieu thereof a comma and the

following: "unless the taxpayer establishes that the meeting is directly related to the active conduct of his trade or business or to an activity described in section 212 and that—

"(A) the cruise ship is a vessel registered in the United States; and

"(B) all ports of call of such cruise ship are located in the United States or in possessions of the United States.", and

(2) by adding at the end thereof the following new paragraph:

"(5) REPORTING REQUIREMENTS.—No deduction shall be allowed under section 162 or 212 for expenses allocable to attendance at a convention, seminar, or similar meeting on any cruise ship unless the taxpayer claiming the deduction attaches to the return of tax on which the deduction is claimed—

"(A) a written statement signed by the individual attending the meeting which includes—

"(i) information with respect to the total days of the trip, excluding the days of transportation to and from the cruise ship port, and the number of hours of each day of the trip which such individual devoted to scheduled business activities,

"(ii) a program of the scheduled business activities of the meeting, and

"(iii) such other information as may be required in regulations prescribed by the Secretary; and

"(B) a written statement signed by an officer of the organization or group sponsoring the meeting which includes—

"(i) a schedule of the business activities of each day of the meeting,

"(ii) the number of hours which the individual attending the meeting attended such scheduled business activities, and

"(iii) such other information as may be required in regulations prescribed by the Secretary.".

(b) The amendments made by this section shall apply to taxable years beginning after December 31, 1982.

II

97TH CONGRESS
2D SESSION

S. 2987

Entitled "The Bloodmobile Act of 1982".

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 30 (legislative day, SEPTEMBER 8), 1982

Mr. ROTH introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

Entitled "The Bloodmobile Act of 1982".

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 4063(a) of the Internal Revenue Code of 1954 (relating to exemptions from the Federal excise tax on motor vehicles) is amended by adding at the end thereof the following new paragraph:

"(8) BLOODMOBILES.—The tax imposed under section 4061(a) shall not apply in the case of any vehicle which is to be used exclusively in the collection and transportation of blood.".

II

97TH CONGRESS
2D SESSION

S. 3064

To amend the Tax Reform Act of 1976 to extend, for an additional four years, the exclusion from gross income of the cancellation of certain student loans.

IN THE SENATE OF THE UNITED STATES

DECEMBER 2 (legistative day, NOVEMBER 30), 1982

Mr. ROTH introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To amend the Tax Reform Act of 1976 to extend, for an additional four years, the exclusion from gross income of the cancellation of certain student loans.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (c) of section 2217 of the Tax Reform Act of 1976 (relating to cancellation of certain student loans) is amended by striking out "January 1, 1983" and inserting in lieu thereof "January 1, 1987".

STATEMENT BY THE HONORABLE SPARK M. MATSUNAGA
BEFORE THE FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
ON S. 2647, THE CRUISE SHIP CONVENTION BILL
Friday, December 10, 1982

Mr. Chairman, I appreciate greatly your scheduling a hearing on S. 2647. This bill would permit tax deductible business conventions to be held on American flag cruise ships.

The Finance Committee in 1980 established the current rules for business convention expenses. The Committee adopted my proposal as an amendment to H. R. 5973, which was enacted as Public Law 96-608. In drafting the proposal, I disallowed, as the Treasury Department sought, all business convention expenses incurred on a cruise ship. I had initially planned to exempt conventions on American flag cruise ships, but the Deputy Assistant Secretary for Tax Policy stated that the Treasury Department could not accept such an exemption. I did not pursue the issue, because I knew of no American ship in the cruise trade.

As events developed, I learned that an American ship did offer cruises for business conventions. Also, two ships have entered the Hawaiian trade and other American ships are seeking to enter the cruise trade which has been dominated completely by foreign flag ships. To help our ships, I introduced S. 2647 with the cosponsorship of the senior Senator from Hawaii, Mr. Inouye.

There are defense as well as economic reasons to encourage American shipping. The British effort in the Falkland Islands has underscored not just the importance of the Royal Navy but also the crucial role of the British merchant fleet. Forty-nine commercial ships were employed in British actions. They included container ships, tugs, trawlers, freighters, tankers, and most significantly, three passenger ships, the Queen Elizabeth, the Canberra, and the Uganda, used as troop and hospital ships. Had these merchant vessels not been available, the movement of materials and personnel to the Falklands, leading to early victory for the British, would not have been possible.

Had we Americans been confronted with the same situation, we would have found ourselves in a sad plight, indeed, for although there was a time when the United States could boast of and take pride in its merchant fleet, it has today shriveled to the point where its effectiveness in an emergency is open to grave doubt. The passenger ships of the United States Line, the Grace Line, the Dollar Line, State Steamship Line, and the Matson Line no longer sail.

It was most heartening for me, therefore, to witness with 700 invited guests the inauguration of the SS Independence in the Hawaiian interisland cruise service, on June 5, 1982, in Honolulu Harbor. A beautifully refurbished luxury liner, the SS Independence joins its sister passenger cruise ship SS Constitution already

providing interisland service in Hawaii. A most significant point to note is that both ships, owned by American Global Line, Inc., fly the American flag. Mr. Robert Suan, president of the company and his associates deserve not only commendation on their bold venture, but more importantly encouragement. Their success will likely lead others to follow suit.

I therefore introduced S. 2647 with Senator Inouye to encourage the use of American passenger liners by American businessmen. Our bill would allow the expenses to be deductible for business conventions on an American ship plying between American ports. The allowance would not apply to ships putting into foreign ports. To prevent abuse, the bill would impose additional reporting requirements which would not apply to usual business convention deductions. I understand that some parties would like to drop the American port of call requirement so that the American cruise ships could stop at foreign ports. I will not oppose such an amendment, provided it would not in any way jeopardize passage of the bill itself.

I hope the Finance Committee will approve this measure expeditiously.

###

Senator PACKWOOD. The committee will come to order, please.

We have three bills before us today: S. 2647, 2987, and S. 3064. Following our usual procedure, we will let the Treasury Department testify on all of the bills.

Just a moment. I see Senator Inouye has just come in.

Dan, would you like to testify?

Senator INOUYE. Yes.

Senator PACKWOOD. Mr. Secretary, if you wouldn't mind, we'll let Senator Inouye make his statement first.

I'm sure you are here to testify on S. 2647.

Senator INOUYE. Yes, sir.

Senator PACKWOOD. We will then take the Assistant Secretary of the Treasury who will testify on all of the bills, and then the panel.

Senator Inouye, thank you for joining us.

Senator INOUYE. Mr. Chairman, I thank you very much for your courtesies. You are always very generous.

Mr. Chairman, I wish to express my support for S. 2647, a bill which Senator Matsunaga and I have cosponsored.

If I may, Mr. Chairman, at this juncture I ask your consent to submit to you the statement prepared by Senator Matsunaga.

Senator PACKWOOD. His statement will be in the record. He told me on Wednesday he had to go back to Hawaii on an emergency matter and that he could not be here.

Senator INOUYE. Thank you, sir.

This measure would amend a provision in our tax laws which I believe is unjustly and unwisely discriminatory. Why should tax deductions be allowed for attendance at bona fide business conventions held within the United States but disallowed for the same kind of conventions held aboard U.S.-flag cruise vessels calling exclusively at ports located in the United States?

In both cases if the convention does not meet the test of legitimacy under our tax laws, it should be disallowed. Conversely, if a convention meets the test, deduction should be allowed regardless of whether the convention is held on land or sea.

This bill, S. 2647, would also provide a strong incentive for the U.S. passenger vessel industry to grow. That incentive, Mr. Chairman, I might add is badly needed for economic and national security reasons.

Within the past 2½ years the *Oceanic Independence* and her sister ship the *Constitution* have gone into service. Until then the U.S. passenger and cruise fleet had been virtually nonexistent for many years. This dismal fact illustrates most dramatically the deterioration of the U.S. merchant fleet from its preeminent world position after World War II. As you are well aware, Mr. Chairman, our merchant fleet now ranks No. 11 in the world.

The adverse consequences of our lack of passenger vessels are not limited to the immediate economic impact on jobs and revenues, they extend to national security as well. For example, at the present time we have no strategic flexibility in troop transportation, whereas the Soviet Union has over 70 troop-carrying vessels

at its disposal. We are, on the other hand, totally dependent on airlift.

And as you are well aware, Mr. Chairman, the Navy has indicated a shortage of hospital ships.

Although enactment of this bill will not cure the ills afflicting our merchant marine, it is another in the series of steps we must take if our merchant industry is to regain its place of preeminence in world shipping.

I thank you very much, Mr. Chairman.

Senator PACKWOOD. I think your point is well taken. I recall, in 1976, we repealed the law and changed the provisions so that you could not take deductions on cruise ships. We were trying, as we often do, to cure a minor abuse, and in the process threw out the entire provision.

Senator INOUYE. Correct, sir.

Senator PACKWOOD. And now I hope we can rectify it. I think your point is valid. If a convention is a boondoggle, it can be done as well on land as on sea.

Senator INOUYE. I thank you very much, sir.

Senator PACKWOOD. Do you have any questions, Bill, of Senator Inouye on this bill?

Senator ROTH. No, I do not. Thank you.

Senator PACKWOOD. Danny, thank you for coming.

Senator INOUYE. Thank you.

Senator PACKWOOD. Now we will take Bill McKee, the Tax Legislative Counsel for the Department of Treasury, and he will testify on all the bills we have before us. Then we will take the panels.

I would say to the panels, we would appreciate it if you would submit your full statements for the record, they will be there in their entirety. Please touch on the principal points during the 5 minutes each of you will have to testify.

Go right ahead.

STATEMENT OF HON. WILLIAM S. McKEE, TAX LEGISLATIVE COUNSEL, DEPARTMENT OF THE TREASURY

Mr. MCKEE. Thank you, Mr. Chairman, Senator Roth.

I am pleased to have the opportunity to present the views of the Treasury Department on the following bills: S. 2987, which would exempt all bloodmobiles from the Federal motor vehicle manufacturers excise tax; S. 2647, which would allow a deduction for the expenses of attending business conventions conducted on cruise ships registered in the United States and sailing exclusively between American ports; and S. 3064, which would extend for 4 additional years the special exclusion from gross income on cancellation of certain student loans. I will discuss each of these bills in turn.

Turning first to the bill dealing with bloodmobiles, the bill would exempt bloodmobiles from the Federal manufacturers excise tax on motor vehicles.

We recognize that schoolbuses, firetrucks, and similar vehicles are exempt and that vehicles purchased by the American Red Cross are exempt by virtue of administrative action. In general,

however, vehicles purchased by exempt organizations are not exempt from this particular tax.

Under the administration-supported Surface Transportation Act of 1982, which has cleared the House and has cleared the Senate Finance Committee, trucks whose gross weight is less than or equal to 33,000 pounds are exempt from the motor vehicle manufacturer's excise tax. Most bloodmobiles weigh approximately 25,000 pounds, so if this act becomes law the problem which is addressed by S. 2987 will be solved.

The type of broad exemption contained in the Surface Transportation Act is the type of exemption which the Treasury supports. It is an exemption which is related to the purpose of the excise tax, which is to deal with wear and tear on the Nation's highways. Obviously the weight of a vehicle comports fairly directly to that cost. And if it is the judgment of the Congress that 33,000 pounds is the line to draw, that's certainly fine, and the administration supports that.

While we recognize the social benefit of bloodmobiles, however, we can't really distinguish bloodmobiles from a lot of other vehicles that have socially desirable purposes; therefore, we would oppose S. 2987 on the grounds that it singles out a particular type of vehicle in a way that has nothing to do with the purpose of the tax, which is to deal with the damage to the Nation's highways, and singles out a particular vehicle which is really indistinguishable from many other types of vehicles.

This isn't to say, obviously, that the administration doesn't support bloodmobiles. We think it is a very worthwhile cause. But if Congress chooses to draw a line that deals with vehicles of this type, it should draw it broadly, to all similarly situated vehicles, in the way they have done in the Surface Transportation Act.

Turning now to S. 2647, dealing with cruise ships, the problem of granting tax deductions for foreign conventions that have a strong vacation flavor has been with us for a long time. Senator Packwood, I think you articulated it quite well a few minutes ago when you said the problem is dealing with boondoggles, disguised vacations, and that is indeed the problem that appears throughout our tax law.

Senator PACKWOOD. Not disguised as vacations, disguised as conventions which are vacations.

Mr. MCKEE. Well, yes. Exactly. Excuse me—conventions which have a vacation flavor, vacations which are disguised in convention clothing.

Congress has been struggling with this problem for a number of years. In 1976, Congress imposed detailed restrictions on foreign conventions, which included recordkeeping requirements and restrictions about how many meetings you had to go to, et cetera.

Those rules were found wanting. In 1980, Congress tightened the rules and said that in order to have a convention located outside the North American area it must be as reasonable for the meeting to be outside the North American area as inside the North American area.

Then, as part of that legislation, Congress simply flatly denied deductions for conventions on cruise ships.

It is our view, and we think a fair reading of the action taken in 1980, that the Congress determined that it is never as reasonable to hold a meeting on a cruise ship as it is to hold it on land in the North American area.

Senator PACKWOOD. Let me ask you something. Isn't that a matter of degree, though?

Mr. MCKEE. Absolutely.

Senator PACKWOOD. It probably is never as rational to hold a national convention at Hilton Head, S.C., as it is at a downtown hotel in Chicago. It's all relative.

Mr. MCKEE. Absolutely, Senator; but the job that we have and I think the problem that we have to deal with here is that we have to draw a line. The Congress drew a bright line in 1980, and we support that bright line. It is a question of degree. All conventions have a certain personal consumption flavor to them. Obviously people enjoy them. It's just that Congress drew a line and said, "If you cross this line, that's too much. Cruise ships are simply too much. You've crossed the line, the vacation flavor is too strong, and we're not going to put up with it."

Senator PACKWOOD. Do you think you could justify a convention of the National Association of Sailboat Owners on a boat?

Mr. MCKEE. We don't think you can justify any convention on a boat. It is our view that passage of S. 2647, which, as you so accurately characterized it, would sanction tax deductions for boondoggles, would simply lead to increased cynicism about the overall fairness of the tax system.

We certainly agree with you, Senator, that it is a question of line drawing. You have got to draw the line someplace. It is an ever-present problem of our tax system and appears in so many different guises in the whole fringe-benefit area.

This is one place where we support the line that the Congress has drawn, and we hope that you will stick to the line that you drew in 1980.

Turning now to S. 3064 which deals with an extension of the exclusion from gross income of income that arises from the cancellation of certain student loans.

This bill deals with a provision in the law in under which certain student loans are discharged if the student works for a specific time in certain areas or professions, or for certain employers.

This program is very similar to that encompassed under the National Research Service Awards Act of 1974. In both cases present law exempts from taxation the income which arguably arises when the loan is canceled.

In last summer's tax bill, in TEFRA, this tax-favored treatment for National Research Service awards was extended until the end of 1983. Loans which are covered by S. 3064, absent the passage of S. 3064, will become taxable upon discharge starting next year.

Both programs are arguably scholarship programs covered by section 117, and indeed the history of both of the exclusions is that they are basically responses to Internal Revenue Service administrative actions which attempted to impose taxes on these types of programs.

Treasury's view is that this is a very difficult area. The test in section 117 is whether the primary purpose of the grantor was to

16-644 O - 83 - 3

further the education of the recipient or whether it was to receive a quid pro quo, some kind of benefit, in exchange.

In these particular cases, the grantor is the Government. The benefit received by the Government is that the recipient perhaps works in a hardship area or in a rural area, or engages in some other activity which the Government thinks is desirable. The quid pro quo, then, is much more remote than it was for example, in the leading case of *Bingler* v. *Johnson* in the Supreme Court, where Westinghouse was furnishing scholarships to employees to go work in university research laboratories as long as Westinghouse got the benefits of the research. In *Bingler*, the nexus between the reason the money was given and the services received by the giver of the money was obviously more direct.

On the other hand, these are not totally no-strings-attached scholarships, which we are all familiar with in the American educational system. It is a tough line to draw, a very difficult line to draw.

We suggest extending the present treatment of the loans covered by S. 3064 for 1 more year, so that the expiration date coincides with the expiration date dealing with National Research Service awards which also expires at the end of 1983.

Treasury currently has a study going on to try to come up with an overall scheme for taxing these types of grants or loans, and trying to weave them in with the overall scheme of section 117. We would like to be able to come back to you next year to give you our views as to how this program fits within the overall scheme, and in light of that we would prefer to have both of these situations, that covered by S. 3064 and that covered by the National Research Service Awards Act of 1974, come up at the same time so that we can look at them together. Thus, rather than a 4-year extension, we would like to see only a 1-year extension.

Senator PACKWOOD. Let me ask you, are you sure, Mr. McKee, that's 1 year? Treasury indicated yesterday 2 years.

Mr. MCKEE. Our original draft of the testimony was 2 years, but we took a look at the expiration date of the provision in TEFRA that dealt with National Research Service awards, and it comes up at the end of next year. When we first drafted the testimony we thought it had another year on it, Senator. It was our mistake.

Senator PACKWOOD. Thank you.

Mr. MCKEE. I would be happy to answer any questions.

[The prepared statement of Hon. William S. McKee follows:]

For Release Upon Delivery
Expected at 9:30 a.m. E.S.T.
December 10, 1982

STATEMENT OF
WILLIAM S. McKEE
TAX LEGISLATIVE COUNSEL
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE SENATE FINANCE COMMITTEE

Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to present the views of the Treasury Department on the following bills: S. 2987, which would exempt all bloodmobiles from the Federal motor vehicle manufacturers excise tax; S. 2647, which would allow a deduction for the expenses of attending business conventions conducted on cruise ships registered in the U.S. and sailing exclusively between American ports; and S. 3064, which would extend for four additional years the special exclusion from gross income on cancellation of certain student loans. I will discuss each of these bills in turn.

S. 2987
Excise Tax Exemption for Bloodmobiles

S. 2987 would amend section 4063 of the Internal Revenue Code (relating to the Federal manufacturers excise tax on motor vehicles) by exempting from this tax all vehicles which are used exclusively in the collection and transportation of blood. Under present law, vehicles such as school buses, fire trucks, ambulances and hearses are exempted from the motor vehicle excise tax. The American Red Cross has long been ruled exempt from the motor vehicle excise tax under section 4293 of the Internal Revenue Code (authorizing the Secretary to grant excise tax exemptions on articles for the exclusive use of the United States) in recognition of the quasi-governmental role which the American Red Cross historically has played. In general, vehicles purchased by nonprofit organizations are not exempt from this excise tax.

As a preliminary matter, the Treasury Department wishes to point out that the Surface Transportation Act of 1982, H.R. 6211, which this Administration supports and which has been passed by the House of Representatives and has been reported favorably by the Senate Finance Committee, would amend the motor vehicle excise tax to exempt all trucks with a gross vehicle weight of 33,000 pounds or less. It is our understanding that bloodmobiles would be classified as trucks and that the average gross vehicle weight of bloodmobiles is approximately 25,000 pounds and rarely exceeds 33,000 pounds. Hence, most of the concerns of the advocates of S. 2987 would be alleviated by passage of H.R. 6211.

Turning now to S. 2987, the Treasury Department recognizes that the collection of blood from voluntary donors is an important component of our nation's health care system. However, while the Treasury supports exemptions to the motor vehicle excise tax which are directly related to highway usage such as the weight classifications described above, we are generally opposed to exemptions which are not so related. An important purpose of the motor vehicle excise tax is to help ensure that all highway users bear their fair share of the cost of constructing, maintaining, and improving our highway system. The fact that many of the vehicles are used in charitable or other worthwhile pursuits does not alter the fact that the owners of such vehicles should pay their fair share of the expense of maintaining our nation's highways. Therefore, Treasury opposes S. 2987.

Treasury estimates that this bill would reduce budget receipts by less than $500,000 per year.

S. 2647
Deductions for Certain Expenses of Attending Conventions on Domestic Cruise Ships

Background

In 1976, Congress first enacted legislation attempting to deal with the problem of taxpayers who were taking deductions for the expense of attending foreign conventions which were in reality thinly-disguised vacations. The 1976 legislation imposed a number of detailed limitations on the deductibility of convention expenses which depended heavily on detailed information reporting by the taxpayer.

By 1980, it became clear that the 1976 limitations had not been effective in preventing the use of the tax system to subsidize foreign vacations. Therefore, Congress discarded the 1976 approach in favor of a rule denying a deduction for the expenses of attending a convention outside the North American area (defined to include the United States, its possessions, and the Trust Territory of the Pacific Islands, and Canada and Mexico), unless it is established that "it is as reasonable for the meeting to be held outside the North American area as within the North American area." In addition, a provision was enacted denying a deduction for all expenses of attending any convention on board a cruise ship.

S. 2647

S. 2647 would allow a taxpayer to deduct the expenses of attending a convention on board a cruise ship if he establishes that the meeting is directly related to the active conduct of his trade or business, if the cruise ship is a vessel registered in the United States, and if all ports of call of such cruise ship are located in the United States or its possessions. In addition, the bill would impose detailed information reporting requirements on taxpayers attending cruise ship conventions and on cruise ship convention sponsors. These information reporting requirements are virtually identical to those which were enacted in 1976 but repealed in 1980. However, the bill would not impose any additional restrictions on the deductibility of cruise ship convention expenses such as those contained in the 1976 statute.

Treasury is strongly opposed to S. 2647. From the context of the other changes made in this area in 1980, it would appear that the cruise ship rule reflects the judgment of Congress that it is never "as reasonable" for a convention to be held on a cruise ship as it is for the convention to be held on land. The Treasury agrees with this judgment. In our view, the decision to hold a convention aboard a cruise ship is invariably motivated almost exclusively by personal, non-business considerations.

S. 2647 is quite similar to H.R. 3191, a bill which the Treasury has previously opposed in testimony before the Select Revenue Measures Subcommittee of the House Ways and Means Committee. The only differences between H.R. 3191 and S. 2647 are: (1) S. 2647 limits the cruise ship exception to cruises which stop only at United States ports while H.R. 3191 would have allowed all ports within the North American area; and (2) S. 2647 imposes more detailed information reporting requirements on taxpayers and convention sponsors in order to qualify for the exception. Neither of these changes serves in any way to lessen the opposition which Treasury has voiced to H.R. 3191. First, the primary personal benefit of a cruise ship convention is the time spent aboard the ship. The Treasury does not see the limitation to U.S. ports as in any way altering the conclusion that an organization which selects a cruise ship as the site for its convention almost invariably does so primarily for the personal benefit of those attending the convention. Second, the proposed reporting requirements are not a meaningful safeguard against abuse since they are not linked to any additional substantive restrictions such as those contained in the 1976 statute.

To summarize, we think allowing a deduction for expenses of attending a convention aboard a cruise ship would permit taxpayers to use the tax system to subsidize what is primarily a vacation. This could only lead to increased cynicism about the overall fairness of our tax system which in turn could result in increased levels of noncompliance.

Treasury estimates that this bill would have a negligible effect on budget receipts.

S. 3064
Extension of the Exclusion from Gross Income on the Cancellation of Certain Student Loans

S. 3064 would extend for an additional four years a provision contained in section 2117 of the Tax Reform Act of the 1976. This statute excludes from gross income the cancellation of any portion of a student loan if the discharge was pursuant to a provision of the loan agreement under which all or part of the indebtedness of the individual would be discharged if the individual works for a certain period of time in certain professions in certain geographical areas or for certain classes of employers. It is our understanding that this provision has primarily assisted public hospitals in the establishment of programs to train nurses.

The exclusion for cancelled student loans is similar (although not identical) to the temporary exclusion from gross income for National Research Service Awards ("NRSAs") received by individuals pursuant to the National Research Service Awards Act of 1974. The temporary exclusion for NRSAs was extended by the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) through December 31, 1983.

In general, scholarships and fellowships grants are excluded from gross income under section 117 of the Internal Revenue Code. While the cancellation of a student loan is not a scholarship or fellowship grant in form, a reasonable argument can be made that it should be treated as such since the same result could be achieved by making a grant to the borrower in an amount equal to the indebtedness to be forgiven. As with NRSAs, the question then becomes whether the conditions on the cancellation of indebtedness are primarily for the benefit of the lender (in which case the cancellation or grant is more properly treated as taxable compensation than a scholarship or fellowship).

The Treasury Department believes that this question is best answered in the context of a comprehensive review of the entire area of scholarships and fellowships. Since the Treasury is currently engaged in such a study, we do not oppose a temporary extension of the exclusion from gross income for these student loan cancellations. We believe, however, that a four-year extension is unnecessarily long and suggest that the exclusion be extended only to loan cancellations occurring before January 1, 1984. In this way, this exclusion would expire at the same time as the NRSA exclusion, allowing these and other similar programs to be considered and dealt with in a comprehensive manner.

Treasury estimates that the bill would reduce budget receipts by less than $5 million per year for fiscal years 1983-88.

I will be happy to answer your questions.

Senator PACKWOOD. Senator Roth?

Senator ROTH. Well, let me start out by saying that I'm pleased you are willing to extend it 1 year; but knowing how Congress works, it will probably take us 2 years to get anything done. So I would much prefer that we extend it through the next 2-year period, at least.

Mr. MCKEE. Well, Senator, I would only remind you that you are going to have to deal with the National Research Service award situation, which has also been bumped periodically.

We are just trying to hook them together so that you don't have to have different bills for each one. They create the same problem.

Senator ROTH. You can still do it jointly. The mere fact that they don't expire at the same time doesn't prevent joint action; so from that standpoint I don't think it makes much difference. And as I say, we will probably be dealing with the problem 2 years from now at this same Christmas season.

Senator PACKWOOD. Whereupon we will have another 2-year extension.

Senator ROTH. That's right.

Mr. MCKEE. We hope to get a study to you next year that will help you with this, Senators.

Senator ROTH. On the bloodmobile, I am disappointed with your position. I would just like to point out that, No. 1, while the gasoline tax presumably will pass before the end of this session, exactly in what form no one knows.

Second there are bloodmobiles that weigh more than 33,000 pounds. And I would just point out to the Treasury that we are not asking for anything new; we are merely asking for the same treatment for the bloodmobiles that we give the American Red Cross. They provide the same services in this area, and I think we all agree that it is a very humanitarian purpose; so it seems to me to be in our national interest to extend that.

I don't think you are going to make much savings because, frankly, the more cost of blood rises, much of the increased cost is going to be paid through the Government through medicare, medicaid, and other programs, anyway.

But it does seem to me, more importantly, that we are just being equitable. We are not creating a new precedent; we're merely extending what we have already done with respect to the American Red Cross.

Mr. MCKEE. We understand that, Senator; but, again, we would prefer that you looked at all similar worthy causes and made an across-the-board determination—for example, either that all exempt organizations should or shouldn't have to pay this particular tax.

But with respect to the weight, we called the various organizations dealing with these vehicles, and it is our understanding that few if any bloodmobiles will be over the 33,000-pound limit. Apparently they make them at about 25,000 pounds.

Senator ROTH. It is my understanding that there are some, of course. But in any event, let me ask you a question. Are you suggesting that the Treasury would be supportive of some broader exemption?

Mr. McKee. I would say, Senator, that we would be happy to look at that with you and try to weigh the relative merits of the revenue gained from the tax versus the social purpose of vehicles like bloodmobiles.

It is just that traditionally the Treasury, and I think rightfully, objects to singling out particular taxpayers or types of taxpayers who are virtually indistinguishable from others that just don't happen to have brought this issue forward. Wee prefer dealing with these things on a little bit broader scale.

If the Surface Transportation Act for some reason does not pass, and it's Treasury's view that we support it and we think it will pass and that this provision will clearly be part of anything that comes out of the Congress; but if for some reason it doesn't, next year we can take a look and work with you. Obviously we are sympathetic to the bloodmobile-type situation. It's a very sympathetic case.

Senator Roth. Well, I don't want to wait. I find that one of our problems here is if we never act, we never do anything. I think this is a worthy cause. We are not establishing a new precedent; it is already available to the American Red Cross. So I do intend to proceed.

I might say I would be interested in looking at a broader classification with you for future action.

Mr. McKee. Thank you, Mr. Chairman.

Senator Packwood. Thank you, Mr. McKee. We appreciate it.

Senator Roth. Mr. Chairman, I was not here at the beginning, but may I just thank you for holding these hearings today. I appreciate your taking the time.

Senator Packwood. I am happy to do it. I think the bills you have brought before us have extraordinary merit, and they will have my support.

Senator Roth. Thank you, Mr. Chairman.

Senator Packwood. Let's move to S. 2647. We have a panel with Mr. Peter Luciano, Conrad Everhard, Stanley Thune, Frank Drozak, and Arthur Kane.

Gentlemen, as I indicated before, your entire statements will be in the record. I have had an opportunity to read those statements that we had last night, and you all speak on the same point, which I think is a valid one. So if you would put them in the record and emphasize orally the main points you want, both Senator Roth and I would appreciate it.

We will just take you in the order that you are listed on the witness list. We will start with Mr. Peter Luciano, the executive director of the Transportation Institute from Washington, D.C.

STATEMENT OF PETER LUCIANO, EXECUTIVE DIRECTOR, TRANSPORTATION INSTITUTE, WASHINGTON, D.C.

Mr. Luciano. Thank you very much, Mr. Chairman, members of the subcomittee.

For the record, the Transportation Institute is a research and educational organization dedicated to the promotion of the American-flag merchant marine. Our 174 member companies operate U.S.-flag vessels in the domestic and the international trades, and

some of our members operate passenger ships under the American flag.

We very much appreciate the opportunity to address this Subcommittee on the question of S. 2647, and we would ask your support for this very important piece of legislation, a piece of legislation that would help the American-flag merchant marine and in particular one of the few sectors of that fleet that is in a stage of revival.

We would ask your support primarily on the basis of equity. It is a simple question of equity to treat one American business like another American business, and not to discriminate against a business simply because it happens to operate vessels instead of operate ashore.

As a matter of fact, there are foreign businesses located in Jamaica, for example, which presently receive better treatment from the U.S. Treasury than do American businesses right now that operate American-flag vessels. As has been made clear from other statements on this matter, the direct revenue effects are likely to be negligible, and the secondary revenue effects are likely to be very positive to the extent that the American-flag passenger fleet is revived and continues to grow.

Another principal reason, apart from equity, for asking your support for this piece of legislation is the question of national defense, and Senator Inouye has already addressed this issue very articulately this morning.

The point is that the Treasury Department, in formulating its position on this bill, addresses a purely cosmetic concern and does not address, does not even attempt to address, the far larger national issue of the security of the country and the need for American-flag passenger vessels in time of national emergency.

Again, we think this bill is a very simple measure aimed at correcting an inequity that was found to exist under previous legislation. It would provide a major boost to a sector of the industry which would be most helpful to the national defense, and we respectfully ask your support.

Thank you very much.

[The prepared statement of Peter Luciano follows:]

STATEMENT OF PETER J. LUCIANO

EXECUTIVE DIRECTOR

TRANSPORTATION INSTITUTE

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

SENATE COMMITTEE ON FINANCE

December 10, 1982

Mr. Chairman and members of the Subcommittee, my name is Peter J. Luciano. I am Executive Director of the Transportation Institute. The Transportation Institute is a research and educational organization dedicated to the promotion of the U.S.-flag merchant marine. Our 174 member companies operate U.S.-flag vessels in the nation's foreign and domestic shipping trades. Among our member companies are several which currently operate U.S.-flag passenger vessels.

We appreciate this opportunity to address the needs of the Nation's passenger ship fleet and, specifically, to discuss S. 2647. As you know, S. 2647 would permit a tax deduction for convention expenses held on U.S.-flag cruise ships serving American ports. We strongly believe that this bill should be enacted if only as a question of equity.

Under current law, tax deductions are permitted for convention expenses at land-based hotels. Those same deductions are allowed for conventions held in Canada, Mexico and Jamacia. Yet, a tax deduction is not permitted for a meeting or convention held aboard a U.S.-flag vessel. This puts the Nation's ship operators at an unfair disadvantage in the acute competition for convention business.

The future of the U.S.-flag passenger fleet will depend to a great extent on its ability to attract a portion of the lucrative convention business. An equitable competitive position is essential to success in this effort.

We realize that this is not an opportune time to be pressing for legislation which would allow for tax deductions. The current high federal deficit makes it essential that any tax measure be fully justified. We are confident that S. 2647 meets this test upon close examination.

Although S. 2647 would permit tax deductions, it is doubtful that there would actually be a loss of revenue for the federal treasury if it were enacted. In fact, in the report accompanying H.R. 3191, the House counterpart to S. 2647, the

Congressional Budget Office and Department of Treasury both stated that this legislation would have a negligible effect on revenue. Furthermore, if S. 2647 is passed and the U.S.-flag passenger fleet is able to continue its recovery as a result, it could only be a boon to the federal treasury. The improved health of a vital sector of the U.S. merchant marine and the increased level of employment that would result would more than offset any possible loss of federal dollars because of the tax deduction.

A revitalized passenger fleet would also improve our defense posture since the vessels would be available to perform sealift functions during time of national emergency. One need only look to the recent Falkland Islands crisis to appreciate the value of a strong privately owned U.S.-flag passenger fleet. Three of Britain's most valuable assets were the British-flag passenger ships the Canberra, the Uganda, and the Queen Elizabeth II. These vessels provided Great Britain with vital troop carrying and medical capabilities necessary to successfully accomplish that country's military objectives. If the United States were to be involved in a similar conflict today and in need of privately owned passenger ships, only two appropriately sized U.S.-flag ships would be available. In

light of the present state of world affairs, America cannot afford to let this important segment of our merchant fleet disappear.

During the past few years, there has been a slow but steady improvement in the condition of the U.S.-flag passenger fleet. In April of this year, the Congress passed a bill which allowed the SS Constitution to join its sistership, the Oceanic Independence, in operating a weekly cruise service among the Hawaiian Islands. The success of these vessels is of utmost importance since others are watching closely to see if the U.S. flag can once again be competitive in the cruise industry. Passage of S. 2647 would provide a critical boost to these vessels as well as others, such as the Mississippi Queen and the Delta Queen, operating on our nation's inland waterways.

We respectfully urge the Committee to give favorable consideration to this legislation.

Thank you very much.

Senator PACKWOOD. Let me ask you a quick question before Mr. Everhard goes on. What is the present law on holding a convention onboard a ship that is permanently anchored next to a dock? Is that deductible or not?

Mr. LUCIANO. I don't know the answer to that, sir.

Senator PACKWOOD. I don't either. What is the ship down at Long Beach? They have conventions on that, don't they?

Mr. Everhard, go right ahead.

STATEMENT OF CONRAD H. C. EVERHARD, CHAIRMAN, AMERICAN GLOBAL LINE, INC., NEW YORK, N.Y.

Mr. EVERHARD. Mr. Chairman, Senator Roth.

My name is Conrad Everhard. I am the chairman of American Global Line, Inc. I believe your first question was about the *Queen Mary,* which is docked in Long Beach, Calif. It is ironic, because it came up in the Ways and Means Committee. I believe it was Pete Stark who asked a question. He said, "Mr. Everhard, why don't you take the engines out of your ships and just dock the vessel? And then you are allowed to have a tax-deductible convention."

Senator PACKWOOD. So the *Queen Mary* is deductible?

Mr. EVERHARD. Yes, sir.

I appreciate having this opportunity to testify today on S. 2647, a bill to amend the Internal Revenue Code with respect to tax treatment of expenses incurred in attending conventions on American-flag passenger vessels, and to urge the passage of this important legislation.

I also wish to take this opportunity to express my appreciation to the two distinguished Senators from Hawaii, Senator Inouye and Senator Matsunaga, for introducing this vitally important bill.

Not many Americans were aware of the demise of the U.S.-flag passenger shipping industry. It gradually slipped away, dying quietly as a result of many circumstances—high operating costs, excessive reliance on operating subsidies.

As you know, there is an upsurge because of various reasons, television shows, of interest in travel by the vessel industry. All you have to do is pick up a travel section of a Sunday paper, and you will literally find dozens of cruises advertised.

It is also no secret that the largest cruise operators in the world are the Russians, and they do this with a consciousness of purpose in mind because it is an extension of their Navy, troop transport, hospital ship type operation.

We at American Global Line, an American corporation, are pleased and proud to have restored back under the American flag the S.S. *Independence* and the S.S. *Constitution.* The *Constitution* was signed back into law by President Reagan earlier this year.

We have taken a gamble, Mr. Chairman, but a gamble we are proud of. With two full crews on the vessels and a standby crew, we employ in the neighborhood of 800 to 900 seafaring personnel—deck and engine and hotel personnel—that is roughly the equivalent of crewing some 25 to 30 tankers, and I think that is very important.

The initial capital outlay has been high, and I must tell you that the future prospects are largely unpredictable. Unfortunately, the

tax policy of the United States has complicated matters and heightened uncertainty.

Tax-legislative Counsel William McKee was saying there is no rationale for holding a convention on a ship. That's not what we're talking about, to change the convention law; all we are talking about is, if you can have a convention in Las Vegas you should also be able to have it on an American-flag vessel in American territory.

The American-flag vessels always follow the flag of the country, and a ship is a better place to hold a convention than anything else because they are there—they are not on a golf course or somewhere else.

If 500 people are on a vessel to attend a convention—like I had the pleasure of attending a convention with Senator Roth in Brussels last year with our friends of the European Common Market, and some of the people went all over Brussels, went to the Grand Palace, and sometimes you couldn't find them—on a ship you've got them; they can't go away. It's the ideal place to hold a convention, if I may say so.

Senator PACKWOOD. Short of prison.

Mr. EVERHARD. That's a good alternative.

I also want to make a last point that is very important. You know, the military is very interested in our ship. Adm. Kent Carroll of the Military Sealift Command inspected the ship stem to stern. All I have to do is remind you of the Falkland crisis. If you don't have a friendly land base it is impossible. It would have been impossible for the United States to duplicate what the British did, and they had to do it with the *Canberra,* the *Uganda,* and the *Queen Elizabeth.*

I think I'm running out of time.

Senator PACKWOOD. I am going to have to ask you to conclude.

Mr. EVERHARD. OK. Thank you, Mr. Chairman. If you have any questions I would be pleased to answer them. And I do have a statement for the record.

Senator PACKWOOD. The entire statement will be in the record.

[The prepared statement of Conrad Everhard follows:]

PREPARED STATEMENT OF CONRAD H. C. EVERHARD, CHAIRMAN, AMERICAN GLOBAL LINE, INC.

Mr. Chairman and Members of the Subcommittee:

I appreciate having this opportunity to testify today on S.2647, a Bill to amend the Internal Revenue Code with respect to the tax treatment of expenses incurred in attending conventions on American flag passenger vessels, and to urge the passage of this important legislation. I also wish to take this opportunity to express my appreciation to the two distinguished Senators from Hawaii, Senators Inouye and Matsunaga for introducing this vitally important Bill.

Not many Americans witnessed the demise of U.S. flag passenger shipping: it gradually slipped away, dying quietly as a result of high operating costs, excessive reliance on operating subsidies, and a growing impulse on the part of the public to travel by air when that mode of travel was new and fashionable. And if there were no American flag ships with American crews there would always be foreign ships with lower wages to fill the gap.

Paradoxically, the effective end of American flag passenger shipping coincided with a renewed public appetite for sea travel. Popular television shows, more free time, and a desire to relax without rushing all combined to revitalize popular interest in ocean excursions. Indeed,

you need only examine the travel section of any Sunday paper to find literally dozens of cruises advertised. And a casual check with any travel agent will quickly determine that the Soviet Union, one of the ascendant shipping powers of the last decade, is also a major leader in passenger shipping. (That should probably come as no surprise inasmuch as the Soviets--and most authorities--readily recognize that passenger ships are easily convertible to troop or hospital ships in wartime.)

At any rate, you did not have to go far to find someone to advise you that it was foolhardy and risky to invest in any American flag cruise venture--at least until two or three years ago, when my company decided to defy the odds.

We at American Global Lines--an American corporation--were pleased to restore the OCEANIC INDEPENDENCE to service among the Hawaiian Islands. Originally constructed in the United States in 1951, the INDEPENDENCE had been sold to foreign owners, so Congressional action was required to "reflag" the ship under U.S. control, thereby making it eligible for traffic in the so-called "coastwise" trades (those are routes between contiguous or non-contiguous points in the United States). Today the INDEPENDENCE carries a total passenger complement of 750 serviced by a crew of 325.

16-644 O - 83 - 4

Favorable House and Senate action in the 96th Congress with regard to the INDEPENDNCE has recently been matched in this session of the 97th Congress with regard to a sister vessel, the CONSTITUTION. It was only nine months ago that President Reagan signed into law a measure to repatriate the CONSTITUTION, bound for operation among the Hawaiian Islands.

We have taken a gamble, Mr. Chairman, but a gamble we are proud of.

With two crews on duty during full operation and backup personnel on rotation we have created some 900 seagoing jobs. Let me put that in perspective: that is roughly the equivalent to the crew levels of a total of 30 U.S. tankers! Moreover, we are not shipping our profits overseas, or taking tourists to foreign points: our money, our passengers, their money, and our sales tax revenues all remain in the United States, where we think they belong. Finally, we have not received any government subsidy--and we made that decision long before the current Administration's decision to effectively end subsidy under The Merchant Marine Act of 1936.

The initial capital outlay has been high and I must tell you that future prospects are largely unpredictable. Unfortunately, the tax policy of the United States has complicated matters and heightened uncertainty.

Section 274(h) of the Internal Revenue Code, as added by Public Law 96-608, explicitly provides that no deduction shall be allowed under either Sections 162 or 212 for expenses allowable to a convention, seminar, or other meeting held on a cruise ship. While this provision was originally enacted to deal with "foreign conventions," neither the statutory language nor the legislative history differentiate between U.S. and foreign vessels.

As you would imagine, the language of Section 274 has established a significant disincentive to travel on American passenger ships.

Our ships offer modern, well-equipped conference facilities, so it is difficult for attendees to evade their commitments within the closed environment of a vessel. Moreover, our successful operation creates major new employment, increases and enhances the tourist potential of the Hawaiian Islands, generates sales tax revenues, and provides the United States Navy with auxiliary vessels for hospital ship conversion or troop carriage on virtually a day's notice--and this at a time when the Administration is

contemplating the building or other acquisition of similar craft for the Rapid Deployment Force. In short, Mr. Chairman, there is nothing frivolous about the potential benefits to the United States from the operation of these ships.

There is recent, compelling reason to act quickly to bolster our passenger shipping capability in view of the war in the Falkland Islands. For example, in that contest, requisitioned passenger and cargo tonnage provided the wherewithal with which the United Kingdom responded to Argentine provocation. As a matter of fact, the British Government employed the QUEEN ELIZABETH II to carry the Fifth Infantry Brigade, as well as the 16,907-ton UGANDA, the 45,000-ton CANBERRA, and the 9,000-ton North Sea Ferry, ST. EDMUND. Given the unavailability of an accessible, friendly land base, it appears that a Falkland's response would have been impossible without adequate passenger vessel tonnage.

Sadly, the United States would be hard-pressed to duplicate the British sealift effort given the paucity of American flag passenger shipping. As a result, U.S. policy should carefully consider measures which will--at no cost to the government--assist passenger fleet development.

The military value of passenger shipping is not speculative, either. We have already had our vessels inspected by the United States Navy and the Commander of the Military Sealift Command completed a personal tour of one of our vessels from stem to stern. Moreover, he was shocked to learn of the marketing disadvantage facing American flag vessels, a disadvantage created by the Internal Revenue Code. In effect, the Code presently permits the deduction of costs associated with conventions held in Canada, Mexico, or Jamaica while denying deductibility to U.S. vessels in U.S. waters. This is plainly unfair.

American law has long held that an American vessel is an extension of American territory: our law has always followed our flag. Thus, it is inconsistent to deny American vessels the treatment accorded land-based facilities. Some, including the Treasury, have contended that a cruising vessel provides an inherently social or non-business environment. But is it any more or less so than a land facility adjacent to Disneyland?

During House hearings on this measure, Mr. Chairman, one Member of the Committee on Ways and Means Committee told us that he had identified an easier way to gain eligibility for deductions for shipboard conventions: he advised us to remove the ships' engines, permanently tie them up at

dockside, and call them hotels! Needless to say, such a proposal might prove commercially viable, but would do nothing for the merchant marine or defense sealift, nor would it create seafaring jobs for American citizens.

The legislation before the Committee would remove the disincentive to travel on American vessels, and its passage would occur at a time when our bold experiment is at a decisive point.

We have been pleased by the progressive reasonableness of the Seafarer's International Union and the Marine Engineers who man our ships. Labor has shown us that they share our concern with the bottom line, and the leadership of Frank Drozak of the SIU and Ray McKay of MEBA, in particular, has been outstanding. But understanding and flexibility alone will be insufficient. We cannot resurrect American passenger shipping in the face of a tax code which offsets or outweighs other incentives.

American Globe Lines is proud of the risk it has taken, and of the cooperation it has had from Labor. We think we can continue and succeed--but we believe strongly that success can only follow the enactment of the Bill before the Committee today, introduced by Senators Matsunaga and Inouye.

We urge the Committee to adopt this Bill so that we can have a tax code that promotes American employment in these more difficult times.

Mr. Chairman, that concludes my remarks. I would be pleased to respond to your questions.

Senator ROTH. Mr. Chairman, could I ask a question?

Senator PACKWOOD. Senator Roth.

Senator ROTH. If there is a convention in Hawaii, for example, and you take a cruise ship to go to Hawaii, wouldn't that be currently covered by the exception?

Mr. EVERHARD. No, sir.

Senator ROTH. But if you fly to Hawaii, isn't your travel expense deductible as a business expense?

Mr. EVERHARD. Yes.

Senator ROTH. But if you do it on a cruise ship it would not be deductible?

Mr. EVERHARD. That is correct, sir.

Senator ROTH. What if it's a regular ship and not a so-called cruise ship? Is there such a thing?

Senator PACKWOOD. Isn't the cost of transportation to a convention normally a deductible expense regardless of how you get there?

Mr. EVERHARD. I believe Senator Roth means using the cruise ship as a means of transportion to go from one point to another point.

Senator PACKWOOD. And the convention is on the second point, not on the cruise ship?

Mr. EVERHARD. Yes. I am not an expert on that, Mr. Chairman.

Senator ROTH. Does anyone know the answer to that?

Mr. EVERHARD. Well, there is no such service.

Mr. THUNE. I think the test might be the expense. It probably would be more expensive to take a cruise ship from California to Hawaii than to fly, and would that be a reasonable expense?

Senator ROTH. I find it very hard to believe that if there is a cruise ship going over, that that wouldn't be deductible as a business expense, just like first-class. Maybe I am wrong, but we can check.

Senator PACKWOOD. We can find that out.

Mr. EVERHARD. Thank you, Mr. Chairman.

Senator PACKWOOD. Next will be Stanley Thune, the chairman and chief executive officer of the Delta Queen Steamboat Co. Do I pronounce the name correctly?

Mr. THUNE. Yes.

STATEMENT OF STANLEY S. THUNE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, DELTA QUEEN STEAMBOAT CO., CINCINNATI, OHIO

Mr. THUNE. Thank you, Senator Packwood and Senator Roth, and the other members of the committee who will be aware of this testimony.

I am Stanley Thune. I am president of Delta Queen Steamboat Co. In considering my company's request for support of S. 2647 it might be helpful if you had a better understanding of our company, its business, and the contribution we feel we make to the U.S. economy.

While I can't make the same statement as Mr. Everhard that we would be helpful in national defense, by plying the rivers of the United States we do make an important contribution to the econo-

my, and indeed we are an important part of the history and the heritage of this country, having the only two overnight passenger steamboats.

By way of background, the Delta Queen Steamboat Co. was founded about 100 years ago and has these two overnight steamboats, the *Delta Queen* and the *Mississippi Queen.*

The *Delta Queen* is a 200-passenger vessel, the *Mississippi Queen* is a 400-passenger vessel. Both travel the inland waterways of the United States.

Both vessels, which are American-flag and have Cincinnati, Ohio, as their home port, carry only passengers and travel from New Orleans to St. Louis to Minneapolis/St. Paul on the Mississippi, and from Cairo, Ill., all the way to Pittsburgh on the Ohio.

Our inclusion in Public Law 96–608 could indeed threaten the viability, and certainly limits the growth, of our company.

Our company, which was not profitable for several years after the *Mississippi Queen* was built and commissioned, recently has been able to achieve profitability. We feel we are cut out of a very important market and one that gives us great potential.

The passage of S. 2647 would aid importantly to our continued growth and stability, especially in this very difficult economic climate that we find ourselves in.

The Delta Queen Steamboat Co. is a publicly held company with over 10,000 shareholders. It is owned and operated by American citizens and makes an important contribution, as I pointed out, to the U.S. economy. We employ 400 people, 300 of which are on the vessels, belonging to two unions—the Marine Beneficial Association, MEBA, and the Seafarers International Association, SIU.

Our steamboats carry passengers who purchase goods and services over a 14-State area. We draw people from all over the country, in fact from all over the world.

The company purchases daily supplies and fuel for both vessels from local merchants. In addition, we maintain our vessels in U.S. shipyards, and at the present time both vessels are undergoing their annual overhaul. We anticipate spending over $2 million in U.S. shipyards, specifically in Avondale in the New Orleans area.

And last, but not least, we pay taxes in the United States.

In a sense, the U.S. Government through the Maritime Administration has a large stake in our company's future success, since MarAd has guaranteed the bonds under which the *Mississippi* was constructed in the mid-1970's. At the present time this guarantee amounts to $13.4 million. The initial debt was $19.5 million, and we have repaid $6 million of this debt. It is possible that the limitations of this law could undermine our ability to continue to meet these bond payment obligations.

The company has presently embarked on a program to attract more people to its vessels and consequently further develop our business in the United States, and job opportunities, and all the other things that go with it. The passage of S. 2647 would help us grow and develop as a company, and perhaps at some time in the future even build a third vessel, which, I might point out, would also not be used for national defense.

By way of summary, I would respectfully ask the support for this bill which would allow organizations holding conventions and semi-

nars aboard either the *Delta Queen* or the *Mississippi Queen*, or any other U.S.-flag vessel operating in the United States, tax deductions which can now be obtained by holding these same meetings in the United States at land-based resorts or in Canada, or for that matter in Mexico.

That completes my formal statement. Thank you very much.

Senator PACKWOOD. How old is the *Delta Queen?*

Mr. THUNE. The *Delta Queen* is 56 years old.

Senator PACKWOOD. I am trying to remember. We used to pass exceptions for that boat on occasion. I believe it didn't meet fire standards.

Mr. THUNE. Oh, it meets all standards.

Senator PACKWOOD. Now.

Mr. THUNE. There was a law, in fact almost similar to the one we are discussing here, that was called the "Safety-at-Sea" law. The *Delta Queen* was caught up in the "Safety-at-Sea" law, which was to ban ships with wooden superstructures that were on the high seas. There had been in the 1950's several very serious fires.

The *Delta Queen,* which operates on the river, is never more than about a minute from either side of the bank. It was swept up into that legislation, and consequently we applied for an exemption in the late 1960's. That exemption has traditionally been granted each 5 years, and indeed the Congress and the Senate passed another exemption in 1982 which carries our exemption to 1988.

Senator PACKWOOD. The *Mississippi Queen* is not wooden, I take it.

Mr. THUNE. The *Mississippi Queen* is built to all the current standards of a fully steel vessel.

Senator PACKWOOD. Our next witness is my good friend Frank Drozak, who is president of the Seafarers International Union and the president of the Marine Trades Department of the AFL–CIO.

Frank?

STATEMENT OF FRANK DROZAK, PRESIDENT, SEAFARERS INTERNATIONAL UNION AND MARITIME TRADES DEPARTMENT, AFL–CIO

Mr. DROZAK. Thank you, Mr. Chairman and Senator Roth.

I appreciate the opportunity to speak in support of S. 2647, a bill which would permit a tax deduction for expenses stemming from attending conventions on American-flag passenger ships.

We support the bill for a number of reasons:

It corrects an unfair situation. Under present law, expenses may be deducted for conventions held on land—including conventions in Canada, Mexico, and Jamaica. Since a U.S.-flag vessel does not enjoy the same benefit, it must operate at a competitive disadvantage.

Congress recently passed legislation to revive the U.S.-flag passenger fleet which had almost completely disappeared. As a result of this legislation two ships, the *Oceanic Independence* and the *Constitution,* have recently returned to service in the Hawaiian Islands. These ships provide work for 900 people and produce revenues for the Federal, State, and local treasuries. They also con-

tribute to the local economy. Their future success will depend on their ability to attract convention business.

There are also two steamboats, the *Delta Queen* and the *Mississippi Queen,* operating on the rivers and providing employment opportunities for more than 300 people.

Passage of S. 2647 would create a positive financial reason for more American ships to operate in these trades.

As the Navy will tell you, passenger ships provide an important defense asset. Their defense usefulness was clearly demonstrated by the recent Falkland crisis. S. 2647 would contribute to the American passenger vessel capability at no cost to the Government. This is borne out by the Congressional Budget Office and the Treasury Department.

I thank you, Mr. Chairman.

[The prepared statement of Frank Drozak follows:]

SUMMARY OF
STATEMENT OF FRANK DROZAK, PRESIDENT
SEAFARERS INTERNATIONAL UNION
AND
MARITIME TRADES DEPARTMENT, AFL-CIO
BEFORE THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
SENATE FINANCE COMMITTEE
DECEMBER 10, 1982

I appreciate the opportunity to speak in support of S. 2647, a bill which would permit a tax deduction for expenses stemming from attending conventions on American-flag passenger ships.

We support the bill for a number of reasons:

- It corrects an unfair situation. Under present law, expenses may be deducted for conventions held on land--including conventions in Canada, Mexico and Jamaica. Since a U.S.-flag vessel does not enjoy the same benefit, it must operate at a competitive disadvantage.

- Congress recently passed legislation to revive the U.S.-flag passenger fleet which had almost completely disappeared. As a result of this legislation, two ships--the Oceanic Independence and Constitution--have recently returned to service in the Hawaiian Islands. These ships provide work for nine hundred people and produce revenues for the Federal, state and local treasuries. They also contribute to the local economy. Their future success will depend on their ability to attract convention business. There are also two steamboats--the Delta Queen and Mississippi Queen--operating on the rivers and providing employment opportunities for more than three hundred people. Passage of S. 2647 would create a positive financial reason for more American ships to operate in these trades.

- As the Navy will tell you, passenger ships provide an important defense asset. Their defense usefulness was clearly demonstrated by the recent Falkland crisis. S. 2647 would contribute to an American passenger vessel capability at no cost to the government. This is borne out by the Congressional Budget Office and the Treasury Department.

STATEMENT OF FRANK DROZAK
PRESIDENT
SEAFARERS INTERNATIONAL UNION OF NORTH AMERICA
AND
MARITIME TRADES DEPARTMENT, AFL-CIO
BEFORE THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
SENATE FINANCE COMMITTEE
DECEMBER 10, 1982

Mr. Chairman and Members of the Subcommittee:

My name is Frank Drozak. I am President of the Seafarers International Union of North America, and also President of the Maritime Trades Department of the AFL-CIO. On behalf of these organizations, I appreciate the opportunity to appear before your committee today in support of S. 2647, legislation which would permit a tax deduction for convention expenses acquired on U.S.-flag passenger ships.

The Seafarers International Union of North America represents thousands of unlicensed seamen employed on American-flag vessels operating on the deep seas, the great lakes, and the inland waterways of the United States. The Maritime Trades Department represents about eight and one half million workers in 41 affiliated trades, including maritime-related areas and activities.

Both organizations applaud the efforts of the bill's supporters, to restore a measure of fairness where it is badly needed. Presently, U.S.-flag passenger vessels must compete against land-based operations for a share of the multi-million dollar convention business-but they must do so with one built-in disadvantage.

As you know, Public Law 96-608 modified the Internal Revenue Code to prohibit tax deductions of convention expenses on passenger vessels. We believe that this law has had a negative impact on the U.S.-flag cruise fleet. By allowing expenses of on-land conventions to be tax deductible -- but not if the convention is held on board a ship -- U.S.-flag vessels are put at a competitive disadvantage in the convention business. S. 2647 is therefore merely designed to correct what we view as inequity in present tax laws by allowing ships to compete on an equal basis with on-land convention facilities. It is simply a matter of fairness.

The unfairness of the current law is further illustrated by the fact that expenses for conventions in Canada, Mexico and Jamaica <u>are</u> tax deductible. It is, therefore, unjust to prevent tax deductions for the use of a cruise ship flying the American flag -- whose owners are American citizens -- whose employees are American citizens -- and who pay American taxes.

U.S.-flag ships are -- in a very real sense -- extensions of America itself. Why should it be all right to deduct expenses for a convention held in Mexico or Canada and not one held on an American ship?

Congress has already indicated its support for a strong U.S.-flag passenger fleet. The Congress passed legislation in 1979, and earlier this year, that allowed the S.S. Oceanic Independence and Constitution to return to the domestic cruise trade. Both ships have been engaged in the cruise trades in the Hawaiian Islands over the past year or so. It has been a boost to the Hawaiian economy and our nation's merchant marine at a time when both need such a boost. These two ships alone represent work for nine hundred people over the course of a year. This is a significant number in an industry whose total job base is now less than twenty thousand. The future success of these vessels depends in part on their ability to attract convention business. In addition, the popular passenger steamboats Delta Queen and Mississippi Queen are currently operating successful cruises on the rivers of the United States. These two vessels provide additional employment opportunities for more than three hundred people. Passage of S. 2647 would create a positive financial reason for more American ships to operate in these trades.

The successful revival of a U.S.-flag passenger fleet will help stimulate the overall American economy. The ships will provide jobs for unemployed seafarers and other maritime workers. The maintenance and repair of these vessels will provide desperately needed work for our nation's vital commercial shipyards at a time when they are being bled out of existence. The successful operation of these ships will provide new tax revenues to Federal, state and local governments.

But perhaps most important of all is the contribution the growth of the U.S.-flag passenger fleet could make to America's national security. This fact was most recently underscored by the Falkland Islands conflict. Forty-nine merchant ships were employed by the British government for use during this conflict. Three of these ships -- the Queen Elizabeth II, the Canberra, and the Uganda -- were passenger ships that were used as troop and hospital ships. Their participation in the Falkland conflict was crucial to the successful British operation. Because they were in active service, they were available immediately to meet British defense needs. This nation should be looking for opportunities to assure that we will have a similar capability when we need it.

Certainly no one could believe that the United States

passenger fleet could carry out such a task. The list of U.S.-flag operators no longer in passenger service is long and painful to read -- United States Lines, American President Line, Grace Line, Dollar Line, State Steamship Line, Matson Line.

Most of us in this room can remember when this country had a large passenger fleet. It wasn't that long ago. A lot of factors led to its decline, but that is not our concern today. For the past few years, we have been trying to bring back the passenger fleet - and we have done so with the support of naval planners. They understand the usefulness of these ships in defense planning. With the government spending billions and billions of dollars to beef up our national defense posture, it makes sense that we should support measures that promise to add defense assets, at little cost to the government. The passage of S. 2647 by the Congress would be such a measure.

We realize that Congress is very concerned -- and rightly so -- with the level of federal spending and the size of the deficit. But we believe that the tax deduction created by S. 2647 will not cost the federal treasury any additional revenue. This belief is shared by the Congressional Budget Office and the Treasury Department. The reason for this is fairly clear. The bill would not be likely to create new

convention business. Instead, it would most likely result in some of the existing convention business being held on ships rather than on land. Therefore, most of the tax deductions would be claimed, whether S. 2647 is passed or not passed.

In short, passage of S. 2647 will not result in any new Federal spending but will have a major positive impact on the economic health of our nation's passenger fleet. As a matter of simple fairness, we urge the Committee to favorably report the bill.

Thank you for the opportunity to appear at this hearing, and I would be pleased to answer any questions.

Senator PACKWOOD. Frank, thank you very much.

We will conclude with Arthur Kane, vice president of Norwegian Caribbean Lines and chairman of the legislative committee of the Florida Caribbean Cruise Association.

Mr. Kane?

STATEMENT OF ARTHUR KANE, VICE PRESIDENT, NORWEGIAN CARIBBEAN LINES, AND CHAIRMAN, LEGISLATIVE COMMITTEE, FLORIDA CARIBBEAN CRUISE ASSOCIATION, MIAMI, FLA.

Mr. KANE. Thank you, Mr. Chairman.

Let me, by way of background, say that Norwegian Caribbean Lines is the largest passenger line serving the North American market, currently, with a number of five ships, one of them being our flagship, the largest passenger ship in the world, the SS *Norway*.

The Florida Caribbean Cruise Association is comprised of 11 different lines, 18 ships which are based year-round in the south Florida market, and as many as 28 ships in the winter season. Even ships come south for the winter, Mr. Chairman.

We very much support the principle behind Senator Matsunaga's bill, 2647, namely that cruise ships offer a valid location for business meetings and conventions. However, we do believe that Senator Child's bill, 3023, which has also been introduced to this committee, offers a better approach.

Putting the written testimony aside, Mr. Chairman, I would just like to draw five brief points which I can extract from this testimony:

First, the law 96-608 has had a very serious negative impact on the cruise industry serving the U.S. market. And in these economic

times, believe me, no one needs any further negative forces to impact their revenue potential.

In the case of Norwegian Caribbean Lines, this bill in effect took away 15 to 20 percent of our market. In dollar terms it cost us, concretely, $25 million of canceled business because tax advisers and corporate attorneys were fearful of how the Internal Revenue Service would interpret this bill.

In addition, we have lost several millions more due to our inability to sell further convention business for the years upcoming.

Second, the Treasury Department, Mr. Chairman, has on more than one occasion admitted before various congressional committees that the matter of tax deductions for conventions held outside the North American area or on cruise ships is a nonrevenue issue; that is, quite simply, that allowing tax deductions for such conventions would have insignificant impact on Federal tax revenues.

Third, Mr. Chairman, the per diem cost currently for holding a convention aboard ship is, in the case of Norwegian Caribbean Lines, $109 per-person per day. Since this price includes all meals and meeting room facilities and services, one can see that this cost is highly competitive and makes cruise ship conventions undeserving of an image of having exhorbitant cost or luxurious situations. And professional meeting planners in this country will tell you that shipboard meetings more readily guarantee attendance, as other members here this morning have said, attended by participants at those conventions who find it difficult to wander very far from the meetings.

The basic issue, Mr. Chairman, is why should cruise ships be singled out as less suitable convention sites than Miami Beach, Las Vegas, or any other such location which has overtones of vacation, as well?

Fourth, Mr. Chairman, I submit that the effect of impeding the flow of convention dollars to other countries or to foreign-flag vessels is to impede international commerce or the ability of other countries to purchase goods and services from the United States.

The Caribbean nations which my company serves receive dollars from our passengers who visit their shores and from more than 1,000 of our Caribbean shipboard employees who remit their wages to their families in those developing countries. Those developing countries then visit our shores and purchase our goods and services.

Public Law 96-608 definitely restricts free trade of this nature, both in spirit and in fact.

Fifth, and finally, Mr. Chairman, several Members of the House and of this body have shared our concern over the obvious inequities of 96-608, and as a result today we have several bills before the Houses. We have 3191 and 2647, which seek to exempt U.S.-flag vessels alone; we have 6975 in the House and Senator Child's 3023, which seek to exempt all ships sailing from North American or U.S. ports and focusing on the Caribbean——

Senator PACKWOOD. I will have to ask you to conclude, Mr. Kane.

Mr. KANE. All right; I am concluding.

I submit, Mr. Chairman, that these bills and other similar bills under discussion, particularly the one that exempts only a small number of U.S.-flag vessels, call for establishing cruise ships as

valid convention sites. I would rather suggest that we urge and do urge the committee to consider 3023 as a more equitable bill, exempting all vessels sailing from North American ports, with particular attention to those serving the developing nations of the Caribbean.

Thank you, Mr. Chairman.

[The prepared statement of Arthur Kane follows:]

PREPARED STATEMENT OF ARTHUR W. KANE, VICE PRESIDENT, CORPORATE RELATIONS, NORWEGIAN CARIBBEAN LINES

Thank you, Mr. Chairman, for this opportunity to address your committee concerning the legislation presently before it.

My name is Arthur Kane, Vice President of Corporate Relations, for Norwegian Caribbean Lines whose corporate offices are in Miami, Florida. Our company has the largest number of cruise ships serving the North American market, one of these ships being our flagship, the largest passenger ship in the world, the S.S. Norway.

We very much support the principle behind Senator Matsunaga namely, that cruise ships offer a valid location for business meetings and conventions. However, we do believe that S. 3023 which has been introduced by Senator Chiles, offers a better approach.

Let me explain our position by first giving you some economic facts concerning the impact of PL 96-608. According to the International Committee of Passenger Liners in New York, the cruise industry in 1981 contributed $988 million, nearly one billion dollars, directly into the U.S. economy through the direct purchase of goods and services. The growth of our industry in the number of ships and in passengers served annually over the last twelve years has made possible major development and expansion of the modern port facilities of Miami, Port Everglades, Los Angeles and Long Beach, San Francisco, San Juan and St. Thomas, and the activity of these ports has had significant economic impact on each of those communities.

Norwegian Caribbean Lines itself employes 350 persons ashore in South Florida and 2,200 persons at sea. All our shoreside employees and all of our shipboard personnel who are either U.S. citizens or residents of the U.S., pay federal income taxes. In 1981 NCL's direct purchase of goods and services amounted to approximately $100 million for the South Florida economy.

To the crux of the issue, Mr. Chairman, the passage of P.L. 96-608 in December 1980, which prohibited tax deductible business meetings or conventions aboard cruise ships, either domestic or foreign, immediately cost my company between 15% and 20% of its market. In dollar terms, when the law took effect on January 1, 1981, Norwegian Caribbean Lines had $38 million of convention business contracted for the years 1981 and on. Because of the fears of corporate attorneys and tax advisors of our client companies on how or whether the regulations of the Internal Revenue Service would permit those conventions to be grandfathered in, thereby allowing tax deductions, in a short time we lost $25 million of that business through cancellations. In addition to this $25 million of business cancelled, we estimate that we have lost another $50 million for each of the years 1981 and 1982 when we were unable to sell this amount of business as forecasted -- that's a total approximate loss of $125 million worth of business to Norwegian Caribbean Lines as a result of PL 96-608.

Mr. Chairman, I submit that on at lest three occasions in the past two years before this or other Congressional Committees it has been stated that the Treasury Department considers the matter of tax deductions for meetings on conventions outside the U.S. or on cruise ships to be a non-revenue issue, that is, to have no significant negative impact on federal revenues. Yet for whatever reasons of perceived abuses or of compromise, cruise ships and land based convention sites outside the North American area were struck down as acceptable convention locations. PL-96-608 acted as though to strike down an elephant in order to get at the fly who from the ground appeared to be enjoying the sun too much while riding on the elephant's back.

To summarize then the economic factors underlining both Senator Matsunaga's and Senator Chiles' bills;

1. To remove the current restrictions on cruise ships as convention sites, would quickly permit an increase of cruise business between 15% and

20% and would quickly increase the economic input of the industry as a whole into the U.S. economy in the area of $150 to $200 million annually. The increase of state, local and federal tax revenues resulting from this incremental business should be apparent

2. The Caribbean Basin Initiative, so much on all our minds currently, focuses on facilitating more trade with the developing nations of the Caribbean, encouraging them to produce goods for the United States market. Our goal is in part to create a flow of dollars into those countries which would enable them to purchase in turn our own American produced goods and services, thereby increasing production opportunities here at home. This is the universal goal of free trade. In keeping with these principles, Norwegian Caribbean Lines, which has five ships serving the Caribbean exclusively, carries tourists to the Caribbean nations where they spend for goods and services, while at the same time the company employs aboard ship over 1,000 Caribbean citizens who remit their wages to families at home. And those dollars spent by cruise passengers or sent home by shipboard employees return to the United States when the Caribbean people come to visit and to purchase here in the United States. Without this flow of dollars to the Caribbean, not only would their economies remain stagnant, but they could not in turn purchase from us or contribute to our own economy. The restrictive provisions of PL 96-608 are therefore, I submit, contrary to the principles of free trade and at base counter productive to economic growth and progress both in the Caribbean and here at home.

3. Third and last, the cruise industry serving the North American market possesses a capacity currently of approximately 20,000 rooms or 40,000 beds which represent very small numbers compared to the number of rooms available for convention facilities in the North American land areas. But to those cruise lines who gained 15 to 20% of their passengers from convention business aboard ship, these numbers are very significant and very critical as a market.

Mr. Chairman, having I hope demonstrated the economic impact resulting from the restrictions of PL 96-608, let me conclude by stating why I am urging this committee to consider S. 3023 submitted by Senator Chiles in preference to the bill of Senator Matsunaga presently being heard.

Again, Senator Matsunaga's bill establishes the very important principle that cruise ships are valid convention sites. However, the bill, in exempting domestic cruise ships alone, would actually exempt two ships sailing in Hawaiian waters, two ships sailing on the Mississippi and four ships sailing to South America with very limited passenger capacity. The bill would therefore grant unfair competitive advantage to these lines. It would assist only at most eight ships of the approximate 56 cruise ships presently serving the U.S. market. And finally, it would contribute again to restrictive trade policies.

S. 3023, on the other hand, would exempt all ships sailing from North American ports and making ports of call either at North American ports or at Caribbean ports, in keeping with the intent of the Caribbean Basin Initiative. Specifically, the bill says:

"(B) Foreign Cruise Ships -

"(i) In general. - Except as provided in clause (ii), in the case of any individual who attends a convention, seminar, or other meeting which is held on any cruise

ship which is not a domestic cruise ship, no deduction shall be allowed under Section 162 or 212 for expenses allocable to such meeting.

"(ii) Foreign Cruise Ships in Caribbean Basin. - Clause (i) shall not apply to a convention, seminar, or other meeting held on a cruise ship which is not a domestic cruise ship, and such meeting shall be treated for purposes of paragraph (1) as held in the North American area, if --

"(I) the point of origin or termination of the cruise is located in the North American area, and

"(II) 75 percent of the ports of call not located in the North American area are located in one or more qualified Caribbean Basin countries.

Mr. Chairman, I respectfully request that this committee support the revision of PL 96-608 to assist the cruise industry and the economies of the U.S. ports they effect, to support an increase of tourism to the Caribbean to the definite benefit in turn of U.S. suppliers of goods and services to Caribbean countries, and to demonstrate thereby that the will of this body is to encourage and not restrict free trade in a healthy and competitive cruise industry.

Mr. Chairman, I thank you for this opportunity to address this body.

Senator PACKWOOD. Thank you, Mr. Kane.

Let me ask the other members of the panel, and just go down in this direction, your comments on Mr. Kane's statement about broadening it so that it is not limited to the eight ships that he makes reference to.

Mr. Everhard?

Mr. EVERHARD. Mr. Chairman, thank you for giving me an opportunity to respond to his testimony.

First, I would like to say that we have an unfavorable balance of trade that is running $50 billion a year. We also happen to have an American-flag merchant marine. The only problem is we don't have a policy and, God willing, we may get a policy out of this session or the next session—that's another story—for the merchant marine.

If you open it up to foreign-flag vessels, you are saying to the Russians, "You can come in here with the largest passenger fleet in the world, and you don't have a profit and loss statement, and you can get the hard currency." And then I would say, "Lenin was right. They, the capitalists are going to sell us the rope to hang them with." He was wrong, we are not going to sell it to them; we are going to give it to them.

Senator PACKWOOD. I take it you are opposed to the expansion.

Mr. EVERHARD. Yes.

Senator PACKWOOD. Mr. Drozak?

Mr. DROZAK. Well, I certainly would be opposed to it, Mr. Chairman, for many reasons. I think the American merchant marine, and particularly the shipowners in this country, are at enough disadvantage as it is in competing or attempting to compete with foreign countries, where they are given certain incentives by their government, certain tax breaks to their seamen, certain medical attention that is given by their government which is not an obligation or a cost to those very shipowners there.

All we are trying to ask is to give us an opportunity to be competitive out there. Certainly if you will review the labor agreement with the company, it will certainly show you that we in the labor movement have bent over backwards to try to bring this type of an operation in service for several reasons: for national security reasons, also to create jobs and to help create taxes and tax benefits for the economy of this country.

So I would certainly be opposed to it.

Senator PACKWOOD. You are not undecided, I see.

Mr. Luciano?

Mr. LUCIANO. Mr. Chairman, we are strongly opposed to broadening the provision. In the first place, I think we owe it to American companies to provide them some sort of an edge, given the kinds of disadvantages they face, as Mr. Drozak pointed out, from the support foreign countries give to their merchant fleets. This bill is one small way in which we can help to rectify that situation and provide a little bit of counterbalance to those promotional efforts of other countries, which are in fact very successful.

Furthermore, and perhaps more importantly, is the fact that this bill provides a very simple clearcut tool to bolster the security of the Nation, a small competitive advantage that would help to build a passenger fleet in the national interest.

16-644 O - 83 - 6

Senator PACKWOOD. Mr. Thune?

Mr. THUNE. Yes. We would also be opposed. We find the current economic environment extremely difficult. We find, by being a U.S. company, operating in the United States, we are subject to all the pluses but also subject to some of the negatives.

During the last year the U.S. Public Service hospitals were closed, which passed the burden of caring for the seamen on board our vessels from a Government cost to a company cost, and a cost that we have assumed that exceeds $250,000 a year.

So if we have to compete in this environment in the United States, be subject to all the U.S. laws, all the ground rules, then we should be able to have an opportunity to take advantage of being a U.S.-flag vessel.

Senator PACKWOOD. Thank you.

Senator Roth?

Senator ROTH. I just have one observation on your question, Mr. Chairman. It seems to me that to go the route that Mr. Kane proposes in a sense opens up the whole question of why not have conventions abroad. It would seem to me that some of the same arguments that prevailed upon the Congress to restrict them to American shores would also apply in this situation.

I might be wrong in that, but it seems to me it is an exception that opens up a wider question.

I have no questions, Mr. Chairman, except that Senator Matsunaga regrets that he can't be here and appreciates the panel appearing here. It is my understanding that he has a number of questions, and he would appreciate it if they could be answered in writing.

Senator PACKWOOD. Gentlemen, thank you very much for coming.

Senator ROTH. Thank you, gentlemen.

Senator PACKWOOD. We will move on to S. 2987, and take Mr. Daniel Cassidy, the director of governmental affairs for the American Association of Blood Banks.

If you will wait just a moment, Mr. Cassidy, until the room clears out.

Please proceed, Mr. Cassidy. I am going to another meeting, and Senator Roth will continue to preside at this hearing.

Senator?

Senator Roth. Thank you, Mr. Chairman.

I appreciate your being here, but I would just like to make a few comments about this legislation before we call on you, Mr. Cassidy.

STATEMENT OF HON. WILLIAM V. ROTH, JR., U.S. SENATOR FROM THE STATE OF DELAWARE

Senator ROTH. I have introduced this legislation to assist hospital and community blood banks in maintaining reasonable fees for the services they provide patients.

These institutions work quietly and efficiently in thousands of American communities to collect blood from volunteer donors.

Important, too, in this effort is the mobile drawing station, or bloodmobile, which is used to collect more than 75 percent of the Nation's blood supply.

It is imperative that we maintain a reliable supply of blood. More than 30,000 pints of blood are required daily, and the need is constantly increasing as new lifesaving surgical techniques are perfected.

I hope that the Bloodmobile Act will assist blood banks in the excellent job they do in reaching out to the thousands of quiet heroes who give blood and save lives each day.

The American Association of Blood Banks represents the Nation's nonprofit hospitals, and community blood banks, and we are pleased to hear their views on this legislation.

So, again, welcome, Mr. Cassidy. We appreciate your being here today.

STATEMENT OF MR. DANIEL CASSIDY, DIRECTOR OF GOVERNMENTAL AFFAIRS, AMERICAN ASSOCIATION OF BLOOD BANKS, ARLINGTON, VA.

Mr. CASSIDY. Thank you very much, Mr. Chairman.

I have prepared testimony to offer, but before I begin I would like to respond to statements that were made by representatives of the Department of the Treasury.

I would like to say, first of all, Mr. Chairman, that you are correct; we are not establishing a precedent in enacting this legislation. The American Red Cross has been exempt since 1964, and last year hospital and community blood banks collected more blood for the Nation's patients than was collected by the American Red Cross.

Many vehicles under construction are now exceeding the weights that would be established by the Surface Transportation Act of 1982. I checked with a number of manufacturers yesterday, and there are semitrailers being manufactured at this moment that weigh about 35 to 36,000 pounds.

These vehicles are increasingly sophisticated. They contain refrigeration units, cell washers, cell separaters, centrifuges, and it appears that in the next few years most all vehicles used for blood collection and transportation will exceed limits established by the Surface Transportation Act.

Mr. Chairman, we are very grateful for the opportunity to express our views on legislation you have introduced to exempt nonprofit hospital and community blood banks from Federal excise taxes they now pay when purchasing vehicles used in the collection and transportation of blood.

We learned recently, Mr. Chairman, that you and your family have been members of the Blood Bank of Delaware's blood assurance program for almost 30 years. Your sponsorship of S. 2987 and your longstanding support for the Nation's hospital and community blood banks bespeaks compassion for the patients they serve. We are deeply grateful for your support and your leadership.

The AABB is a nonprofit professional, scientific, and administrative association comprised of over 2,300 hospital and community blood banks and transfusion services, and almost 7,000 physicians,

administrators, scientists, nurses, medical technologists, donor recruiters, and public-spirited citizens working with blood bankers. Our members, located in all 50 States and 44 foreign countries, are responsible for collecting over half of our Nation's blood supply and transfuse nearly 80 percent of all blood and blood components transfused in the United States. We are the only national organization devoted exclusively to blood banking.

Since our founding in 1947, the AABB has improved the quality and procedures of our medical specialty in a multitude of ways.

Our publications are recognized throughout the world as the most authoritative statement of blood banking practices and have been adopted by both Federal and State agencies as official documents.

The association's inspection and accreditation program has assured the highest health-care standards and safety for our patients and has been given equivalency to 10 State inspection programs.

The AABB national clearinghouse program provides for the transfer of blood and blood credits between facilities across the country, thus assuring the most efficient and economical use of blood resources.

Research in the many aspects of blood is carried out continuously by scientists and physicians associated with the AABB at their local institutions.

Through these and many other programs our association is dedicated to one fundamental goal: the provision of a safe, adequate, and economical blood supply.

We sincerely believe that enactment of S. 2987 will be of significant help in assuring that hospital and community blood banks continue to achieve this goal.

Mobile drawing units or bloodmobiles are usually converted school buses or customized trailers. Smaller vehicles such as vans under 10,000 pounds gross vehicle weight are already exempt from excise taxes.

These vehicles provide our institutional members the essential outreach necessary to assure an adequate blood supply. Almost 12 million units of blood will be collected this year. Of that total at least 75 percent will be obtained through the use of mobile drawing units. By going to the donor in companies, churches, and universities, bloodmobiles enable donors who might otherwise not be able to take the time to visit a blood bank the opportunity to give.

There are four companies manufacturing self-contained and trailer-type vehicles used in the collection and transportation of blood. Although vehicles of this kind are used by every major blood-collecting facility, the four manufacturers of these vehicles agree that only about 15 new vehicles are sold each year, with a sticker price of $90,000 to $110,000 each.

Although a 10-percent Federal excise tax is imposed on these vehicles, it applies only to those parts of the vehicle which make it road adaptable such as the engine, wiring, and undercarriage. These parts represent half the cost. Custom features which make the vehicle suitable as a bloodmobile are already exempt.

Thus, a vehicle which sells for $100,000 would carry an excise tax of $5,000. Therefore, with approximately 15 vehicles sold per year,

the loss of revenue to the Government if S. 2987 is enacted would probably be no greater than $100,000 per year.

Although medicare patients are financially responsible for the first three units of blood they may use in a particular operation, the Federal Government spends a considerable sum on blood and blood components used by medicare patients. In the past year approximately 3 million units of blood were paid for by the medicare program. Thus, any cost savings to individual patients will result in a cost savings to the U.S. Government.

Finally, and no less significantly, there is an issue of fairness involved in this matter. Under authority granted by 26 U.S.C., section 4293, the Secretary of the Treasury has exempted quasi-governmental agencies such as the American Red Cross from payment of Federal excise taxes.

Hospital and community blood banks are collecting over half of the Nation's supply. We feel that these independent nonprofit institutions should be treated equally in law. Vehicles used in the public service such as ambulances, fire trucks, and even hearses, bear no excise tax.

While hospital and community blood banks provide much of their service in advance of need, we believe there is a service no less vital to millions of human lives.

The bill you have introduced, Mr. Chairman, is in the public interest. It will make bloodmobiles more affordable to nonprofit institutions, encouraging their use.

We urge that the committee recommend enactment of S. 2987.

Again, Mr. Chairman, we thank you very much for your assistance and that of your very excellent staff, and for sharing the goals of our association.

[The prepared statement of Daniel Cassidy follows:]

STATEMENT

of the

AMERICAN ASSOCIATION OF BLOOD BANKS

to the

Senate Finance Committee

RE: The Bloodmobile Act of 1982 - S. 2987

December 10, 1982

Mr. Chairman and Members of the Committee:

I am Daniel Cassidy, Director of Governmental Affairs for the American Association of Blood Banks. On behalf of the AABB I want to tell you how very much we appreciate the opportunity to speak in support of the Bloodmobile Act of 1982, S. 2987 -- legislation you have introduced, Mr. Chairman, to exempt nonprofit hospital and community blood banks from the federal excise taxes they now pay when purchasing vehicles used in the collection and transportation of blood.

We learned recently, Mr. Chairman, that you and your family have been members of the Blood Bank of Delaware's blood assurance program for almost thirty years. Your sponsorship of S.2987 and your long-standing support for the nation's hospital and community blood banks bespeaks compassion for the patients they serve. We are deeply grateful for your support and your leadership.

The AABB is a nonprofit professional, scientific and administrative association comprised of over 2300 hospital and community blood banks and transfusion services, and almost 7000 physicians, administrators, scientists, nurses, medical technologists, donor recruiters and public-spirited citizens working with blood bankers. Our members, located in all 50 states and 44 foreign countries, are responsible for collecting over half of our nation's blood supply and transfuse nearly 80% of all blood and blood components transfused in the United States. We are the only national organization devoted exclusively to blood banking. Since our founding in 1947, the AABB has improved the quality and procedures of our medical specialty in a multitude of ways: Our Standards for Blood Bank and Transfusion Services and Technical Manual are recognized throughout the world as the most authoritative statement of blood banking practices and have been adopted by both federal and state agencies as official documents. The Association's Inspection and Accreditation Program has assured the highest health care standards and safety for our patients and has been given "equivalency" to 10 state inspection programs; the AABB National Clearinghouse Program provides for the transfer of blood and blood credits between facilities across the country, thus assuring the most efficient and economical use of blood resources. Research in the many aspects of blood is carried out continuously by scientists and physicians associated with the AABB at their local institutions. Their findings, shared at the AABB Annual Meeting, other prominent sessions and in our own scientific journal, Transfusion, represent a major contribution to the advancement of medicine. Through these and

many other programs our Association is dedicated to one fundamental goal: the provision of a safe, adequate and economical blood supply. We sincerely believe that enactment of S. 2987 will be of significant help in assuring that hospital and community blood banks continue to achieve this goal.

Mobile drawing units or bloodmobiles are usually converted school buses or customized trailers. (Smaller vehicles such as vans under 10,000 lbs. gross vehicle weight are already exempt from excise taxes (26 U.S.C. Section 4061)). These vehicles provide our institutional members the essential outreach necessary to assure an adequate blood supply. Almost 12 million units (pints) of blood will be collected this year. Of that total at least 75% will be obtained through the use of mobile drawing units. By going to the donor in companies, churches and universities, bloodmobiles enable donors, who might otherwise not be able to take the time to visit a blood bank, the opportunity to give.

There are four companies manufacturing self contained and trailer-type vehicles used in the collection and transportation of blood. Although vehicles of this kind are used by every major blood collecting facility, the four manufacturers of these vehicles agree that only about 15 new vehicles are sold each year with a sticker price of $90,000 to $110,000 each. Although a 10% federal excise tax is imposed on these vehicles, it applies only to those parts of the vehicle which make it road adaptable (26 U.S.C. Section 4061), such as the engine, wiring and the under-carriage (26 U.S.C. Section 4061). These parts represent half the cost of the vehicle.

Custom features which make the vehicle suitable as a bloodmobile are already exempt. Thus, a vehicle which sells for $100,000 would carry an excise tax of $5,000. Therefore, with approximately 15 vehicles sold per year the loss of revenue to the government if S. 2987 is enacted would probably be no greater than $100,000 per year. This small cost to the government will be of very significant help to nonprofit institutions providing blood and blood components.

Although Medicare patients are financially responsible for the first three units of blood they may use in a particular operation, the federal government spends a considerable sum on blood and blood components used by Medicare recipients. Thus, any cost savings to individual patients will result in a cost savings to the United States Government.

Finally, and no less significantly, there is an issue of fairness involved in this matter. Under authority granted by 26 U.S.C. Section 4293, the Secretary of the Treasury has exempted quasi-governmental agencies, such as the American Red Cross, from payment of federal excise taxes. As I have stated, hospital and community blood banks are collecting half of the nation's supply. We feel that these independent nonprofit institutions should be treated equally in law. Also under 26 U.S.C. Section 4063 vehicles used in the public's service such as ambulances, fire trucks and even hearses bear no excise tax. While hospital and community blood banks provide much of their service in advance of need, we believe theirs is a service no less vital to millions of human lives.

The bill you have introduced, Mr. Chairman, is in the public interest. It will make bloodmobiles more affordable to nonprofit institutions, encouraging their use.

We urge that the Committee recommend enactment of S. 2987.

Again, Mr. Chairman, we thank you for the assistance you have given us and for sharing the goals of our association.

Senator ROTH. I see, in reviewing your statement, that currently ambulances, firetrucks, and even hearses bear no excise tax. Treasury, in their testimony, indicate that they are willing to have some kind of a broader exemption. Is there any way to meet that requirement in the present language in order to get bloodmobiles included there?

Mr. CASSIDY. If the weight limits that are being proposed in the Surface Transportation Act were increased considerably, that would take care of us for a good long time; but most semitrailers are over the 26,000-pound weight limit that has been suggested, and I would say that most self-contained units or bus-type vehicles are very close to the 33,000-pound limit for trucks now.

Senator ROTH. And you foresee that weight increasing over the coming years?

Mr. CASSIDY. We do. It's more economical for a larger vehicle to be fully equipped with some very sophisticated equipment.

Senator ROTH. All right.

I want to thank you for coming here today. We intend to move forward on this proposal, and I think your testimony is very helpful.

I would ask you perhaps to mention once again—well, that's all right. You say that bloodmobiles are roughly 26,000 pounds now, is that correct?

Mr. CASSIDY. The weight limits that are being proposed for the Surface Transportation Act would set a cutoff at 26,000 pounds for the trailer-type vehicle.

Senator ROTH. The problem is we really don't know yet what is going to happen in that area. But in any event I think the important point which is in contrast with the Treasury's testimony is that there are already bloodmobiles that weigh in excess of what is being proposed.

Mr. CASSIDY. Many trailer-type vehicles are in excess of 26,000 pounds, and we expect that probably 25 percent to 30 percent of self-contained units are in excess of the 33,000 and will be increasingly in excess of that amount.

Senator ROTH. Well, thank you very much for appearing here, Mr. Cassidy.

Mr. CASSIDY. Thank you.

Senator ROTH. We will now have a panel consisting of Ms. Robbins, special assistant to the dean, University of Colorado School of Dentistry; and Mr. Foster, administrator, with Georgia Medical Center.

While they are coming forward, I would just like to point out that what we are requesting in S. 3064 is of course a simple extension of the existing provision which continues a policy of disallowing from gross income the forgiveness or cancellation of certain student loans. In exchange a student agrees to work in a particular hospital.

Many public hospitals have found this provision to be an effective method for recruiting and retaining health care professionals, particularly nurses.

We face serious problems in our health care system. One that I consider to be one of the most important is the nationwide shortage of registered nurses. As we all know, nurses and nursing services

are one of the most important elements in providing quality health care.

Over the years the Federal Government has continually wrestled with the nursing shortage and supported various programs to address the problem. S. 3064 is a small but important part of this effort. Its approach has been a cost-efficient and cost-effective mechanism in assisting students and also assisting our Nation's hospitals in maintaining quality care.

I am very pleased at this stage to welcome the panel, and I will invite you—who wants to lead off?

Dr. ROBBINS. I will.

STATEMENT OF KRISTIN ROBBINS, D.D.S., SPECIAL ASSISTANT TO THE DEAN, UNIVERSITY OF COLORADO SCHOOL OF DENTISTRY, DENVER, COLO.

Dr. ROBBINS. My name is Dr. Kristin Robbins, and I am a former student at the University of Colorado School of Dentistry, and while you have spoken specifically to nursing needs, I would like you to know that the service payback programs apply across the board to the medical and the health professions.

At this time I would like to thank you for the opportunity to address the subcommittee and speak in support of the 4-year extension to Senate bill 3064.

In 1973 Colorado developed a dental school tuition policy whereby students were charged 100 percent of the cost of their education in return for services in underserved areas. Regents were authorized to waive 87½ percent of that cost if in fact the students would then sign to take on postgraduation service.

This tuition policy, as it came to be known, served a worthy goal and was intended as a mechanism to insure postgraduation service within the State of Colorado.

While structuring that program in 1973, the tax implications were unforeseen. As they became clearer, in 1978 a group of students came to you, and we appreciate your support at that time in giving us a tax-exempt status in order to complete our service.

At this particular time the armed forces in the National Health Service Corps have similar programs. The punitive nature of taxing service payback of any kind in the health professions as gross income has been fully discussed and acted upon by Congress; thanks to the efforts of Senator Dole and his supporters, Public Law 96–541 has given permanent tax-exempt status to these particular other similar programs.

Colorado, too, at the State level has fully recognized the problem and in April 1982 signed a new bill that in fact restructures the financing of the dental school to avoid future problems.

We are asking for a 4-year extension at this time, because what is going to happen to the students that we have out there right now is that Colorado has a tuition level that is far in excess of most others. In essence, all future students will be required to serve a service residency prior to graduation and licensure. In this particular time direct clinical care will in fact be afforded to the underserved populations in Colorado.

Right now CU graduates are working side by side with the National Health Service Corps and the armed forces personnel in Colorado, in Greeley, Fort Lupton, Lafayette, LaMar, and Alamosa. However, we have no clinics for them to work in and no equipment to provide, and we have no way just to pay them.

Nonetheless, 50 percent of our graduates have located, finagled their own financing, and set up their own practices in rural areas in Colorado. What's more, we can show that 6 years into the program we have an enormously high—in the nineties—retention rate in those rural communities.

In the urban areas the remainder of our students are providing care to 63 organizations on a direct fee-for-service basis. These include the elderly, recent refugees, halfway houses, and the homebound, to name a few.

The National Foundation of Dentistry for the Handicapped depends on 60 percent of their dentists coming from tuition policy graduates who need to deliver free care.

We have asked our students to locate in underserved areas, privately finance their own offices, pay themselves, and return service care in the dollar amounts of their tuition debt. Tuition at the University of Colorado this year is $24,347. A 1980 student will have a total debt of $108,000, and of that, $95,000 needs to be returned in free services.

The essence of the dilemma is that a 1982 student must set up practice, perform $96,000 in free services, and then pay income tax on it as if it were income. The numbers just don't work out anymore.

We ask you to support a 4-year moratorium on S. 3064.

I appreciate your time.

Senator ROTH. Thank you, Dr. Robbins.

Mr. Foster?

STATEMENT OF MR. CHARLES FOSTER, JR., ADMINISTRATOR, WEST GEORGIA MEDICAL CENTER, LA GRANGE, GA.

Mr. FOSTER. Thank you, Mr. Chairman.

I am Charles L. Foster, Jr., administrator of the West Georgia Medical Center, a 426-bed public hospital in La Grange, Ga. I am here today representing the American Hospital Association's 6,300 hospitals and other health institutions as well as our 35,000 personal members. We collectively express our strong support for S. 3064.

Mr. Chairman, we consider it a privilege to have the opportunity to express our views to this committee and commend you specifically for introducing this measure as well as S. 2987, the Blood Mobile Act of 1982 which we just previously discussed.

S. 3064 would simply extend for an additional 4 years a provision of existing law by amending the Tax Reform Act of 1976 to exclude from gross income the cancellation or forgiveness of certain student loans.

This provision has primarily assisted public hospitals in establishing loan-forgiveness or scholarship programs to recruit and retain health professionals, especially registered nurses. For instance, nursing students are provided with loan forgiveness funded through a hospital scholarship program or other Government grant

in exchange for which they agree to return to a particular hospital and work for a particular period of time.

The key tax issue is that the amount of the loan forgiven is not included in the student's taxable income. If this provision is not extended beyond January 1, the amount of the loan cancellation would then be considered taxable income. This would render it much more difficult for recipients to realize the full benefits of these programs and for hospitals to attract nurses.

More importantly, this tax provision helps address a very serious problem that our Nation's hospitals have experienced for several years.

Nurses are the backbone of our health-care system, and the need to maintain proper nursing resources is critical to the provision of high quality health-care services in our Nation's hospitals.

As you know, this country faces a serious shortage of registered nurses. AHA-member hospitals indicate that they have been experiencing severe and chronic shortages amounting to at least 85,000 nursing vacancies, and 80 percent of the Nation's hospitals are said to have unfilled positions.

In addition, graduations from basic nursing programs have been declining, and the demand for increased and specialized services has continued to rise. Moreover, during the past few years, nursing training programs administered by the Department of Health and Human Services have decreased approximately 52 percent, from about $106 million in fiscal year 1980 to about $50 million in fiscal year 1983. Programs providing basic assistance to nursing schools and scholarships to needy students have been eliminated completely. Other important advanced training programs have also been significantly reduced.

Therefore, this provision, while providing needed assistance to students, also enables hospitals to address the nursing shortage problem in an effective and efficient manner, specifically tailored to the needs of the individual community, with minimal cost to the Federal Government.

It is also important to note that this type of provision is consistent with other Federal policies. For example, it is our understanding that similar loan repayment programs for health professionals available through the Department of Health and Human Services are treated in the same manner.

Mr. Chairman, we can provide several examples of how this tax provision has proved beneficial to the individual communities involved. I will briefly summarize some of the specific ways this provision has been helpful and request that more detailed information that I have prepared be inserted in the record, and that is the list, Mr. Chairman.

The West Georgia Medical Center, in an effort to alleviate its shortage of professional nurses, undertook a program in 1967 to train nurses primarily for our hospital. With the help of a local philanthropic foundation a nursing loan and scholarship program was established. Since 1967 more than $1.2 million has been awarded in grants to over 250 nurses for training at all levels of preparation.

Our program has had an outstanding effect on alleviating the nursing shortage that we were experiencing. It has also allowed us

to expand our medical facilities to include a renal dialysis program and a home health program, a 150-bed long-term nursing home, a cancer treatment facility, a diagnostic and treatment facility for heart disease, and a hospice program.

A similar situation exists in New York City where the New York City Health and Hospitals Corp. is planning to expand their program of forgiving loans to senior nursing students in return for commitments to work in that hospital system, which includes 12 hospitals, 4 nursing homes, and over 12,000 beds. Although there is a serious shortage of nurses in all New York City hospitals, the most acute shortage is in the municipal system, where there are approximately 5,500 nurses, or 1,900 fewer than the 7,400 needed according to the city of New York.

Under their expanded program, the HHC would offer loan cancellations to nursing students from the HHC endowment. However, under current law the origin of the loan forgiven must be from a political subdivision or Federal, State and local entity. Because HHC is not considered a "political subdivision," the American Hospital Association supports any effort to amend S. 3064 to also include public-benefit corporations.

There are many more examples that we could give, but in the interest of time we will submit these for the record.

In closing, we believe that the extension of this provision is merited, needed, and clearly in the public interest.

Once again, let me thank the committee and you, Senator Roth, for the opportunity to share our views.

Thank you, sir.

Senator ROTH. Thank you, Mr. Foster.

[The prepared statement of Charles Foster follows:]

American Hospital Association

AHA

444 North Capitol Street N.W.
Suite 500
Washington D.C. 20001
Telephone 202.638.1100
Cable Address: Amerhosp

STATEMENT BY THE AMERICAN HOSPITAL ASSOCIATION
TO THE SENATE FINANCE COMMITTEE, SUBCOMMITTEE ON TAXATION
AND DEBT MANAGEMENT ON S.3064,
THE EXTENSION OF THE EXCLUSION FROM GROSS INCOME
THE CANCELLATION OF CERTAIN STUDENT LOANS
AND S.2987, THE BLOODMOBILE ACT OF 1982

December 10, 1982

Mr. Chairman, I am Charles Foster, Jr., administrator of the West Georgia Medical Center, a 396-bed public hospital in LaGrange, Georgia. I am here today representing the American Hospital Association, whose membership includes over 6,300 hospitals and other health institutions, as well as more than 35,000 personal members, to express our strong support for S.3064.

Mr. Chairman, we consider it a privilege to have the opportunity to express our views before the committee and we commend Senator Roth for introducing this measure, as well as S.2987, the Bloodmobile Act of 1982, which exempts bloodmobiles owned by nonprofit hospitals from federal excise taxes. Both these bills have the support of the American Hospital Association. They both also recognize the value of certain tax provisions in helping communities ensure that quality health care resources and services are available to their citizens.

S.3064 would simply extend for an additional four years a provision of existing law by amending the Tax Reform Act of 1976 to exclude from gross income the cancellation or forgiveness of certain student loans.

This provision has primarily assisted public hospitals in establishing loan forgiveness or scholarship programs to recruit and retain health professionals, especially registered nurses. For instance, nursing students are provided with loan forgiveness funded through either a "hospital scholarship" program or other government grants in exchange for which they agree to return to a particular hospital and work for a period of time. The key tax issue is that the amount of the loan forgiven is not included in the student's taxable income. If this provision is not extended beyond January 1, 1983, the amount of the loan cancellation would then be considered taxable income. This would render it much more difficult for recipients to realize the full benefit of these programs and for hospitals to attract nurses.

Most importantly, this tax provision helps address a very serious problem that our nation's hospitals have experienced for several years. Nurses are the backbone of our health care system, and the need to maintain proper nursing resources is critical to the provision of high quality health care services in our nation's hospitals.

As you know, this country faces a serious shortage of registered nurses. AHA member hospitals indicate that they have been experiencing severe and chronic

shortages amounting to at least 85,000 nursing vacancies and 80 percent of the nation's hospitals are said to have unfilled positions. In addition, graduations from basic nursing programs have been declining and the demand for increased and specialized services continues to rise. According to the Department of Labor's Bureau of Labor Statistics, of job openings in the health care field in the 1980's, up to 50 percent will be for nurses -- approximately 83,000 annual openings for RN's.

Moreover, during the past few years nurse training programs administered by the Department of Health and Human Services have decreased approximately 52 percent, from about $106 million in Fiscal Year 1980 to about $50 million in FY 1983. Programs providing basic assistance to nursing schools and scholarships to needy students have been eliminated completely. Other important advanced training programs have also been significantly reduced.

Therefore, this provision, while providing needed assistance to students, also enables hospitals to address the nursing shortage problem in an effective and efficient manner specifically tailored to the needs of the individual community with minimal cost to the federal government.

It is also important to note that this type of provision is consistent with other federal policies. For example, it is our understanding that similar loan repayment programs for health professionals available through the Department of Health and Human Services are treated in the same manner.

Mr. Chairman, we can provide several examples of how this tax provision has proved beneficial to the individual communities involved. I will briefly summarize some of the specific ways this provision has been helpful and request that more detailed information that I have prepared be inserted in the record.

The West Georgia Medical Center, in its efforts to alleviate its shortage of professional nurses, undertook a program in 1967 to train nurses primarily for our hospital. With the help of a philanthropic foundation a nursing loan and scholarship program was established. Since 1967, more than $1.2 million in awards has been made to over 250 nurses for training at all levels of preparation.

Our program has had an outstanding effect on alleviating the nursing shortage that we were experiencing. It has also allowed us to expand our medical facilities to include a renal dialysis program and a home health program.

A similar situation exists in New York City where the New York City Health and Hospitals Corporation (HHC) is planning to expand their program forgiving loans to senior nursing students in return for commitments to work in that hospital system, which includes 12 hospitals, four nursing homes, and over 12,000 beds. Although there is a serious shortage of nurses in all New York City hospitals, the most acute shortage is in the municipal system, where there are approximately 5,500 nurses or 1,900 fewer than the 7,400 needed according to the City of New York.

Under their expanded program, the HHC would offer loan cancellations to nursing students from an HHC endowment. However, under current law the origin of the loan forgiven must be from a "political subdivision" or federal, state, or local government entity. Because HHC is not considered a "political subdivision," the American Hospital Association supports any efforts to amend S.3064 to also include "public benefit corporations" in the exemption.

In contrast, due to its rural location, Richland Memorial Hospital, a 142-bed public hospital in Olney, Illinois, also has found the program very useful in helping to recruit and retain registered nurses.

These are just a few examples of hospitals that have used this provision to alleviate a nurse shortage problem and provide aid to nursing students upon graduation.

In closing, we believe that the extension of this provision is merited, needed, and clearly in the public interest.

Once again, let me thank the committee and Senator Roth for the opportunity to share our views.

MATERIALS SUBMITTED FOR THE RECORD BY THE AMERICAN HOSPITAL ASSOCIATION TO THE SENATE FINANCE COMMITTEE, SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT, ON S.3064, THE EXTENSION OF THE EXCLUSION FROM GROSS INCOME THE CANCELLATION OF CERTAIN STUDENT LOANS

EXAMPLES OF HOSPITAL USE

- University of Alabama Hospitals, Birmingham, Alabama, 801-bed, state hospital.
- West Georgia Medical Center, LaGrange, Georgia, 196-bed city-county hospital has provided 267 awards since their program was established.
- Alton Memorial Hospital, Alton, Illinois, 284-bed, church-operated nonprofit hospital has provided over 81 awards in the past three years.
- Richland Memorial Hospital, Olney Illinois, 142-bed county hospital has provided over 30 awards during the past three years.
- Wood River Township Hospital, Wood River, Illinois, 143-bed public hospital.
- Broadlawns Medical Center, Des Moines, Iowa, 282-bed, county hospital.
- Lucas County Memorial Hospital, Charlton, Iowa, 83-bed county hospital.
- People's Memorial Hospital, Independence, Iowa, 109-bed, county hospital.
- University of Iowa Hospitals and Clinics, Iowa City, Iowa, 1040-bed state hospital system provides about 120 awards annually.
- Cary Medical Center, Caribou, Maine, 65-bed, city hospital.
- University Hospital, Jackson, Mississippi, 508-bed, state hospital.
- Barnes Hospital, St. Louis, Missouri, 1208-bed nonprofit hospital.
- Cardinal Glennon Memorial Hospital, St. Louis, Missouri, 190-bed, church-operated nonprofit hospital.
- Incarnate Word Hospital, St. Louis, Missouri, 340-bed, nonprofit hospital.
- Lutheran Medical Center, St. Louis, Missouri, 340-bed, church-operated hospital.
- St. Louis City Hospital, St. Louis, Missouri, 404-bed, city hospital.
- St. Mary's Hospital, Kansas City, Missouri, 356-bed, nonprofit hospital.

- University Hospital, Kansas City, Missouri, 284-bed, nonprofit hospital.
- Dundy County Hospital, Benkelman, Nebraska, 28-bed, county hospital.
- Litzenberg Memorial County Hospital, Central City, Nebraska, 79-bed, county hospital.
- Lutheran Community Hospital, Norfolk, Nebraska, 78-bed, nonprofit hospital.
- Our Lady of Lourdes Hospital, Norfolk, Nebraska, 89-bed, church-operated nonprofit.
- St. Joseph Hospital, Omaha, Nebraska, 523-bed, nonprofit hospital.
- New York City Health and Hospitals Corporation, which includes 12 hospitals, four nursing homes, and over 12,000 beds.
- Anderson Memorial Hospital, Anderson, South Carolina, 456-bed, nonprofit hospital.
- Medical University Hospital, Charleston, South Carolina, 488-bed state hospital.
- Baptist Medical Center, Columbia, South Carolina, 441-bed, church-operated nonprofit hospital.
- McCloed Regional Medical Center, Florence, South Carolina, 303-bed, nonprofit hospital.
- Spartanburg General Hospital, Spartanburg, South Carolina, 560-bed, county hospital.
- Copper Basin Medical Center, Copperhill, Tennessee, 44-bed public hospital.
- Methodist Hospital System, Memphis, Tennessee, church-operated nonprofit hospital with about 1000 beds.

Senator ROTH. I believe you were both here when the Treasury testified earlier. I would ask each of you to comment on its proposal to extend it for 1 year.

Dr. Robbins?

Dr. ROBBINS. I will take first stab at that one.

One year is not enough. We have students on board that came in on a contract basis that are currently under contract and will have to return services in the amount of dollars that I have already spoken to. Four years covers the students we already have on board in the programs, right now in Colorado. We want to maintain continuity of the services in these organizations. Without a 4-year moratorium, we can't.

Senator ROTH. Let me ask you this: Won't that always be a problem if they phase it out?

If I understand what the Treasury was saying—and I'm not supporting what they are saying—they want to only extend it 1 year, so they can take a look across the board and have consistent policies.

I understand your testimony. You are saying you've got commitments and will have commitments of 4 years to——

Dr. ROBBINS. As an institution, we have educational contract commitments that commence when a student is a freshman in school. These cannot be changed significantly during that time.

Senator ROTH. I guess what I am saying to you is, won't that always be the situation?

Dr. ROBBINS. No, it won't, sir, because what we have done, we have worked hard the last—I came here in 1978 as well, and we spent 4 years and worked hard at the State level. We have changed the statute at the State level. Four years solves Colorado's problems. It doesn't solve the problems for 41 other service payback programs in the country.

We have worked hard at the State level. What we will have at the end of 4 years is an enforced residency program prior to graduation and prior to licensure in the State.

Senator ROTH. I understand that.

Dr. ROBBINS. So, our problems are solved.

I would encourage the committee, however, to look into the future. Tuition is increasing; funds for those sorts of support are decreasing. Service payback is a viable means of retaining adequate numbers of women and minorities in our health professions. The prices are just going sky high. Most people aren't going to be able to afford to go to professional schools unless somebody who is already very wealthy is behind them in the next 10 years.

Senator ROTH. That is a problem of real concern, I have to agree.

Dr. ROBBINS. I would hope the Treasury takes a look at service payback in that light.

Senator ROTH. Thank you, Dr. Robbins.

Mr. Foster?

Mr. FOSTER. The 1-year provision, Senator, will not alleviate our problem. As you may know, there are three types of nursing schools, primarily, and we are talking about nursing schools here, in our testimony. That's the 2-, the 3-, and the 4-year school.

In our particular case we have students who have received scholarship commitments from us to pay for 2, 3, and 4 years out into

the future, and if we do that every year—2 years from now if you extend the provision for 1 year, after that year we have still got students out there with 1, 2, and 3 years left on their educational process.

Senator ROTH. I guess, if I understand what you are saying, that would be a problem any time if the Federal Government wanted to change its program.

Mr. FOSTER. That is correct, sir, and that is the reason we are supporting the 4-year provision.

Senator ROTH. Well, I am hopeful that we can extend it that long, but it is going to be much more difficult with the objections of the Treasury.

Can you briefly describe the arrangement whereby a hospital gets involved in this type of program?

Mr. FOSTER. Yes, sir, and I can use my own hospital as an example, if that would be appropriate.

As I say, we are a very large community hospital serving basically a rural area in south Georgia. We recognize the need for nurses. Contrary to what some people say, that there is not a shortage of nurses, there is a critical shortage of nurses in hospitals.

One of the ways that we have been able to alleviate our problem, rather than go to the foreign markets to recruit nurses which we did prior to 1967, and it just did not work out, was through a local foundation in our community. We sought their help, primarily in the area of funds, and asked this foundation to provide the hospital with funds, to be administered by the hospital, to pay for nurses' education. And our scholarship program or loan program is only for registered nurses at this time, and it has been that way since 1967.

We recruit the prospective student, interview them, make recommendations to our foundation for funding, and, based upon the amount of dollars that they commit to us to fund the students, depends the number of students that we have in training.

At the current time we have 75 students in various educational programs—2-, 3-, and 4-year programs. The foundation provides us the money, and we pay the school for the education. The student does not receive spending money; the only funds that are expended are for tuition, books, et cetera.

After the students complete their education they have a commitment to come back to the West Georgia Medical Center to work. I might point out that they do not receive less wages than any other person in a similar position. The registered nurse receives the salary of any registered nurse that we would recruit.

For each year we fund that student, at the end of that year, after he or she works for us, then we will give a year's cost of the education. As an example, a 4-year student who works for us for 4 years, at the end of each year one-fourth of the cost of that is forgiven.

That's how we, particularly, fund ours.

Senator ROTH. Well, the time has come that I have to go to another meeting, but I want to express my appreciation to both of you for coming here and testifying on behalf of my legislation. I think this has been a valued program, and as I said about the blood mobile, I intend to push ahead.

Thank you very much for your testimony.

Dr. ROBBINS. Thank you.

Mr. FOSTER. Thank you and your staff, Senator.

(Whereupon, at 10:52 a.m., the hearing was adjourned.)

[By direction of the chairman the following communications were made a part of the hearing record:]

NEW YORK CITY HEALTH & HOSPITALS CORPORATION
125 Worth Street • New York, New York 10013

December 16, 1982

Mr. Robert E. Lighthizer
Chief Counsel
Committee on Finance
2227 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. Lighthizer:

Enclosed is the statement of Stanley Brezenoff, President of the New York City Health and Hospitals Corporation, on S.3064, (extending the exclusion from gross income of the cancellation of certain student loans).

We understand that his statement will be included in the record of the hearing, held on December 10, 1982.

Thank you for your assistance.

Sincerely,

Janet Smith
Director, Legislative
Development & Analysis

JS:mc

Save Water

STATEMENT BY STANLEY BREZENOFF, PRESIDENT OF THE
HEALTH AND HOSPITALS CORPORATION TO THE
SENATE FINANCE COMMITTEE ON S.3064
EXTENSION OF THE EXCLUSION FROM GROSS INCOME
IN THE CANCELLATION OF CERTAIN STUDENT LOANS

December 10, 1982

Thank you for the opportunity to submit this statement for the record. As President of the New York City Health and Hospitals Corporation, I would like to: highlight the need for S.3064, which extends §S.2117 of the Tax Reform Act of 1976; and to call your attention to the importance of assuring that the Health and Hospitals Corporation be eligible under its provisions. Specifically, an amendment is required to include "public benefit corporation" as an entity eligible to offer cancellable student loans. Currently, only "political subdivisions" are eligible, which technically excludes the NYC Health and Hospitals Corporation (HHC).* HHC was established as a "public benefit corporation" under state enabling legislation in 1969.

Let me assure you that we are supportive of the main purpose of the legislation, which is designed to help public and other hospitals recruit and retain registered nurses through the establishment of much-needed scholarship and loan programs. As is widely acknowledged, there is a critical shortage of registered nurses nationwide. Public hospitals have been particularly hard hit by the shortage because they lack the resources and flexibility of the voluntary hospitals in competing for the scarce number of nurses. The Health

*Pursuant to the attached letter of 12/20/81 from the I.R.S., it was confirmed that under the Tax Code HHC is not considered a political subdivision.

and Hospitals Corporation is no exception. Although we now employ a total of about 5,500 full-time RNS, we need approximately 1,900 more to meet our staffing needs.

As one of many steps the Corporation is taking to improve its nurse recruitment and retention rates, we are just now beginning to offer forgivable loans to senior nursing students. The amendment that we are requesting under S.3064 would assure that our nursing students not be required to count their loans as gross income once they complete their work commitments.

Funded by an endowment to the Corporation for educational purposes, our loan program is a unique opportunity for the New York City municipal hospital system. We have enough resources to help between 30 and 60 students, depending on the amounts of the loans given. If this initial effort is successful, it is possible that we may be able to attract more funding and expand the program.

For this reason, we urge the Committee to amend S.3064 as indicated in the attachment to this statement so that HHC may enjoy the intended benefits of this legislation. We also wish to thank Senator Roth and the Committee for their attention to this issue.

NEW YORK CITY HEALTH & HOSPITALS CORPORATION
125 Worth Street • New York, New York 10013

New York City Health & Hospitals Corporation
Requested Amendment to S.3064
(§2117 of the Tax Reform Act of 1976)

"(1) by the United States, or an instrumentality or agency thereof, or a State, territory, or possession of the United States, or any political subdivision thereof, or a public benefit corporation, or the District of Columbia, or

(2) by any such educational organization pursuant to an agreement with the United States, or an instrumentality or agency thereof, or a State, territory, or possession of the United States, or any political subdivision thereof, or a public benefit corporation, or the District of Columbia ....."

Save Water

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply to:

E:EO:T.R:1

Date: DEC 30 1981

New York City Health & Hospitals
Corporation
125 Worth Street, Room 523
New York, New York 10013

Attn: John J. McLaughlin
General Counsel

'82 JUN 11 AM 9 07

Employer Identification Number: 13-2655001
Key District: Manhattan
Accounting Period Ending June 30
Form 990 Required: /x/ Yes / / No

Ladies and Gentlemen:

This letter is in response to your request for confirmation of your exempt status under section 501(c)(3) of the Code. Through error you were dropped from the list of recognized exempt organizations on November 23, 1976, by the Manhattan District Director. Through misunderstanding, you considered yourself a political subdivision of a state under section 115 of the code, not subject to any filing requirement, and consequently had not filed the required Forms 990 for years prior to Fiscal Year ended June 30, 1981.

After a series of meetings in the National Office on October 28, 1981, you indicated that you would file timely the required Forms 990 for the current and subsequent years. On our part, we agreed to confirm your exempt status under section 501(c)(3) and restore you to the Cumulative List of Organizations to whom contributions are deductible under section 170(c) and amend our other records accordingly.

Therefore, based on the information supplied, we have determined you are exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code.

We have further determined that you are not a private foundation within the meaning of section 509(a) of the Code, because you are an organization described in section 509(a)(1) and 170(b)(1)(A)(iii).

Your return, Form 990, for the Fiscal Year ended June 30, 1981, is considered timely filed with the Internal Revenue Service.

If your sources of support, or your purposes, character, or method of operation change, please let your key district know so that office can consider the effect of the change on your exempt status and foundation status. Also, you should inform your key District Director of all changes in your name or address.

New York City Health & Hospitals Corporation

Since your are not a private foundation, you are not subject to the excise taxes under Chapter 42 of the Code. However,, you are not automatically exempt from other Federal excise taxes. If you have any questions about excise, employment, or other Federal taxes, contact any Internal Revenue Service Office.

Donors may deduct contributions to you as provided in section 170 of the Code. Bequests, legacies, devises, transfers, or gifts to you or for your use are deductible for Federal estate and gift tax purposes if they meet the applicable provisions of sections 2055, 2106, and 2522 of the Code.

The box checked in the heading of this letter shows whether you must file Form 990, Return of Organization Exempt from Income Tax. If Yes is checked, you are required to file Form 990 only if your gross receipts each year are normally more than $10,000. If a return is required, it must be filed by the 15th day of the fifth month after the end of your annual accounting period. The law imposes a penalty of $10 a day, up to a maximum of $5,000, when a return is filed late, unless there is reasonable cause for the delay.

You are not required to file Federal income tax returns unless you are subject to the tax on unrelated business income under section 511 of the Code. If you are subject to this tax, you must file an income tax return on Form 990-T. In this letter, we are not determining whether any of your present or proposed activities are unrelated trade or business as defined in section 513 of the Code.

We are informing your key District Director of this action. Because this letter could help resolve any questions about your exempt status and foundation status, you should keep it in your permanent records.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely yours,

J. E. Griffith

J. E. Griffith
Chief, Rulings Section
Exempt Organizations
Technical Branch

MARK O. HATFIELD, OREG., CHAIRMAN

TED STEVENS, ALASKA
LOWELL P. WEICKER, JR., CONN.
JAMES A. MC CLURE, IDAHO
PAUL LAXALT, NEV.
JAKE GARN, UTAH
HARRISON SCHMITT, N. MEX.
THAD COCHRAN, MISS.
MARK ANDREWS, N. DAK.
JAMES ABDNOR, S. DAK.
ROBERT W. KASTEN, JR., WIS.
ALFONSE M. D'AMATO, N.Y.
MACK MATTINGLY, GA.
WARREN RUDMAN, N.H.
ARLEN SPECTER, PA.

WILLIAM PROXMIRE, WIS.
JOHN C. STENNIS, MISS.
ROBERT C. BYRD, W. VA.
DANIEL K. INOUYE, HAWAII
ERNEST F. HOLLINGS, S.C.
THOMAS F. EAGLETON, MO.
LAWTON CHILES, FLA.
J. BENNETT JOHNSTON, LA.
WALTER D. HUDDLESTON, KY.
QUENTIN N. BURDICK, N. DAK.
PATRICK J. LEAHY, VT.
JIM SASSER, TENN.
DENNIS DE CONCINI, ARIZ.
DALE BUMPERS, ARK.

J. KEITH KENNEDY, STAFF DIRECTOR
THOMAS L. VAN DER VOORT, MINORITY STAFF DIRECTOR

United States Senate

1982 DEC 20 AM 10:12

COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

December 10, 1982

The Honorable Bob Packwood
Chairman
Subcommittee on Taxation and Debt
Management
Committee on Finance
2227 Dirksen Senate Office Building
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am pleased to submit for your hearing record this letter in strong support of S. 2647, a bill which encourages the use of American passenger liners by American businessmen.

As you know, the bill assists in expanding the development of the U.S. flag fleet by permitting the deduction of expenses for conventions held on U.S. flag passenger vessels between U.S. ports. I have reviewed this legislation and believe that it would assist greatly in retaining business conventions in America that may now opt for Canada or Mexico. This stiff foreign competition could be met by U.S. flag passenger vessels that would add a unique and more competitive dimension in attracting business conventions back to America.

Additionally, the bill is carefully drafted to ensure that personal expense abuses are avoided by requiring a greater standard of proof of business purpose than land-held conventions now require.

On the west coast Exploration Holidays and Cruises is operating a small fleet of U.S. built and American staffed vessels which cruise between American ports, and in my home state in particular, between ports in Southeast Alaska. This bill would allow a company such as Exploration Holidays to attract more convention business to Alaska. In 1980 travel and tourism generated 11,300 jobs in Alaska as well as $41.2 million in federal tax revenues.

It is my hope that the Finance Committee will report this measure to the calendar as soon as possible.

With best wishes,

Cordially,

TED STEVENS

○